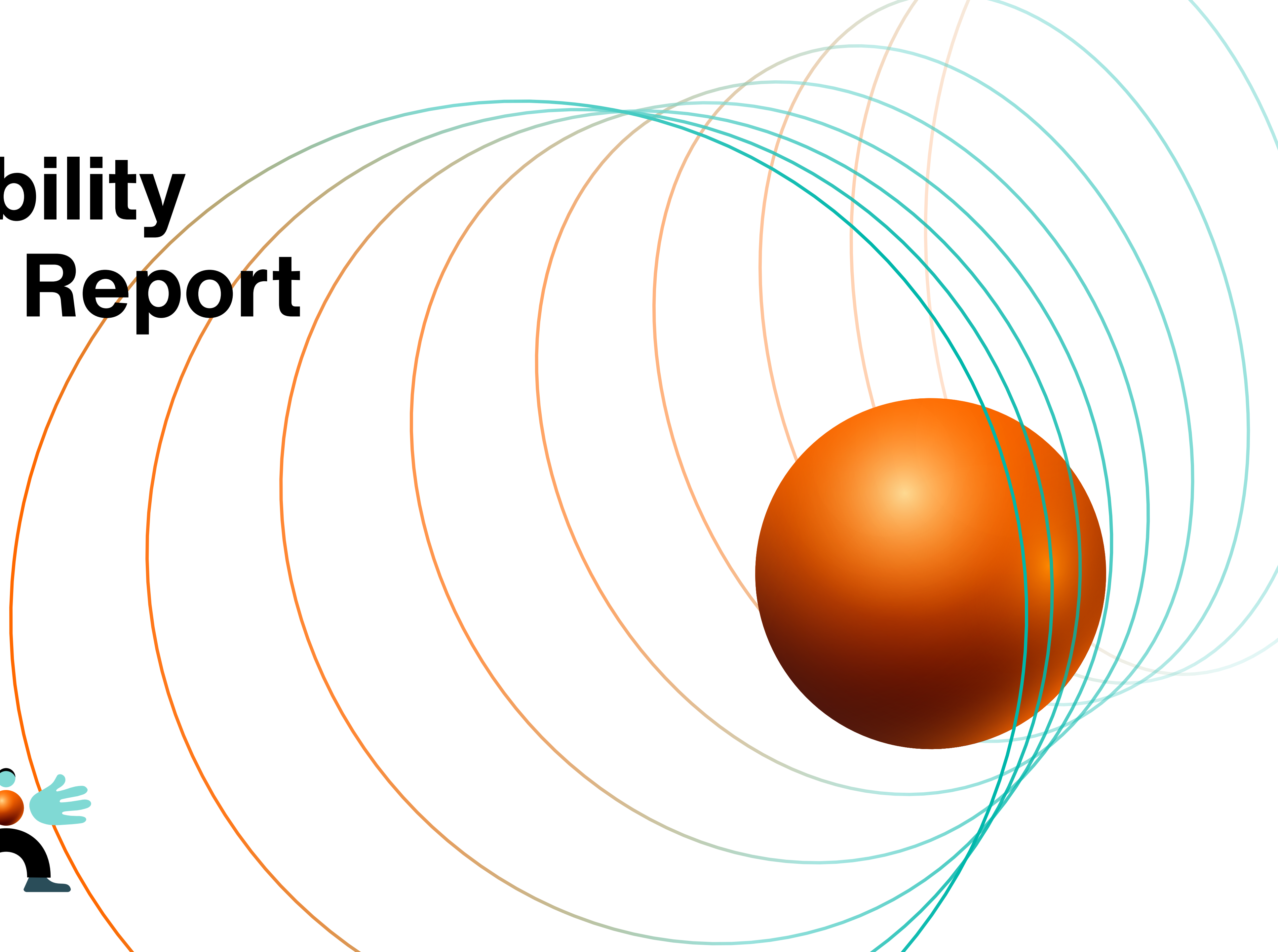
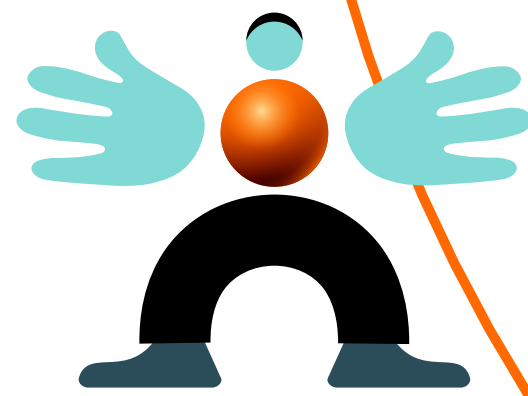
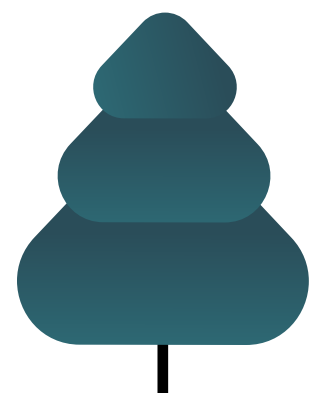




Sustainability Progress Report 2020



Our Progress: 2020 at a Glance

Planet



Carbon Footprint

64%

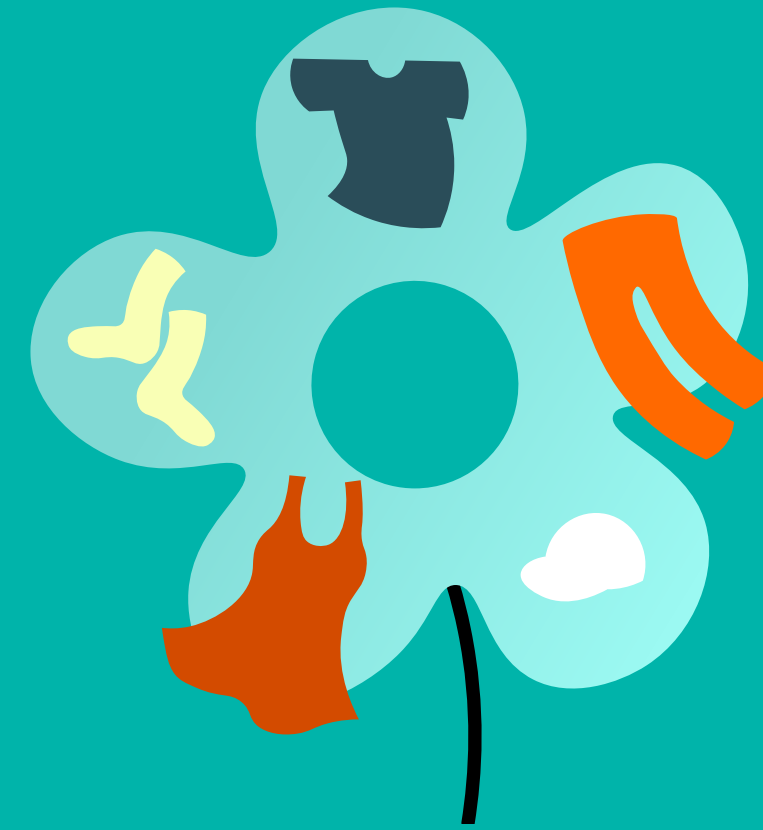
emissions reductions in own operations since 2017, through sourcing of 100% renewable electricity

Product

Assortment

16%

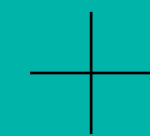
of GMV generated with more sustainable products



People

Ethical Standards

standardized framework for human rights assessments



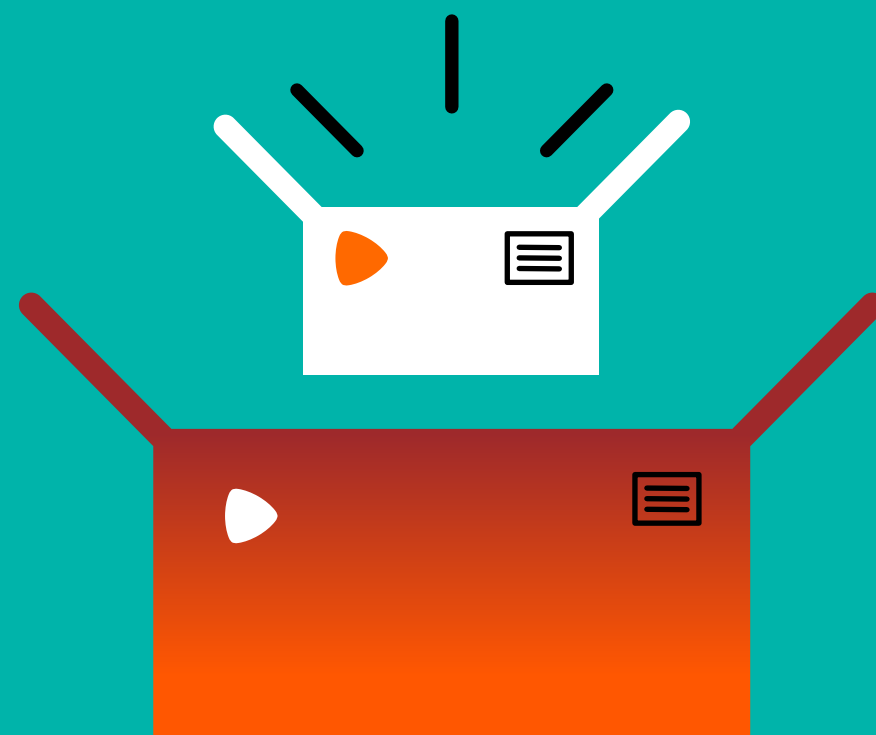
first retailer to use Higg BRM for mandatory brand assessments



Packaging

22%

less single-use plastic per item shipped



Circularity

We extended the life of more than

340K

products



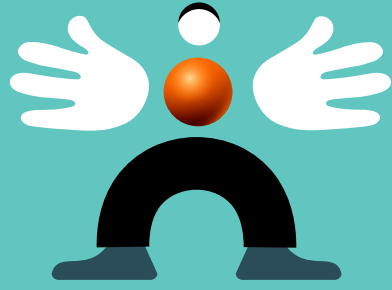
Skilling

1,355

people received skilling opportunities that match future work requirements



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Foreword

“Driving change does not come for free. However, we should view every euro and every minute that we spend on our sustainability vision not as a cost but as an investment to stay relevant for our customers, to further define our role in the fashion industry, and to attract the best talent globally.”


Rubin Ritter
ZALANDO SE, Co-CEO



In this tumultuous last year, in which COVID-19 has dominated the global discourse, we have all been confronted with a paradigm shift that has led to unprecedented challenges — from how we organize our daily lives to how we run our businesses. The pandemic has brought incredible hardship and loss to many. Still, its dominance creates a risk that we lose sight of other fundamental challenges: the consequences of climate change may turn out to be just as deadly as the pandemic. And growing social and economic imbalances may impede our progress toward a just and fair society.

The pandemic has shown how quickly humans can adopt new behaviors when it matters. Within weeks we organized stringent lockdowns, shifted from physical interactions to video calls, turned our homes into offices and schools, and started to wear masks in public. And in less than a year, an effective vaccine was developed and approved. Can we move with the same level of decisiveness and speed to tackle climate change? At Zalando, one of our core values is to “think big and act fast”. We aspire to bring this value to life in our sustainability work.

In 2019, we set out our agenda for change with the launch of our do.MORE strategy and our vision to be a sustainable fashion platform with a net-positive impact for people and the planet. We also outlined six focus areas, ranging from cutting our carbon emissions to applying the principles of circularity to the fashion industry. We defined specific targets, which we aim to reach within the coming years (not decades). In this inaugural progress report, we highlight what we have achieved over the past year and provide a detailed roadmap for the coming years.



“We are encouraged by the progress we have made. We have become carbon neutral in our own operations, reducing our direct emissions by 64% relative to 2017 and offsetting the remaining emissions.”



“We are eager to receive more feedback on our efforts, both positive and negative.”

We are encouraged by the progress we have made. We have become carbon neutral in our own operations, reducing our direct emissions¹ by 64% relative to 2017 and offsetting the remaining emissions. We have set ambitious reduction targets until 2025, which are in line with the goals of the Paris Agreement. In 2020, we offered our customers more than 80,000 products that were flagged as “more sustainable”, because they fulfilled at least one of our sustainability criteria. We generated 16%, or more than €1.7bn of GMV², from these more sustainable products, up from around €500m in 2019.³ This has encouraged us to lift our 2023 target from 20% of GMV to 25%, while continuing to raise the bar on eligibility criteria. Finally, we made sustainability assessments mandatory for all partner brands, and we were the first retailer to use the Higg Brand & Retail Module from the Sustainable Apparel Coalition to do this.

¹ Scope 1 and 2

² Zalando Group, after returns

³ Zalando Fashion Store, after returns

We have been encouraged by the recognition we have received for our work. In the past year we were placed on the CDP “A List” for excellence in environmental disclosure, as well as the CDP Supplier Engagement Leaderboard for raising the level of climate ambition across our value chain. We are eager to receive more feedback on our efforts, both positive and negative.

Driving change does not come for free. However, we should view every euro and every minute that we spend on our sustainability vision not as a cost but as an investment to stay relevant for our customers, to further define our role in the fashion industry, and to attract the best talent globally. I am convinced that if we make the right investments fast, they will form an important competitive edge for Zalando in the future.

I would like to thank my Zalando colleagues, who have embraced our sustainability commitments with open arms and made enormous efforts in 2020 to reach, and in some cases exceed, our targets. It is their dedication, energy, and inspiration that defines, and will drive, our roadmap going forward.

Rubin Ritter
ZALANDO SE, Co-CEO



Our Sustainability Strategy



Our vision is to be the starting point for fashion — the destination that consumers gravitate to for all their fashion needs. While fashion means different things to different people, it always means something. We choose to focus on building deeper relationships by considering and anticipating our customers' needs and desires (now and in the future). We work backwards from these to offer a flawless selection, an unmatched level of convenience, and an inspiring and engaging digital experience.

We are convinced that in the long term, consumers, and talent, will avoid companies that fail to address the fundamental sustainability challenges we are jointly facing. Growing numbers of our customers state that it is important for brands, platforms, and vendors to help them make more sustainable decisions. If we want to achieve our vision of being the starting point for fashion, and if we want to win the hearts and minds of our customers and employees, we need to become part of the solution to the sustainability challenges.

Zalando's business model has a foot in two industries that have a significant impact on people and the planet. First, we are part of the fashion industry, which is one of the most polluting and resource-intensive of all. Fashion is currently operated on a linear take-make-waste model and consumer prices that do not factor in the actual costs in terms of human and envi-

Our Strategic Partners

- Action, Collaboration, Transformation (ACT)
- Ashoka
- Ellen MacArthur Foundation
- Fashion for Good
- Global Fashion Agenda
- Sustainable Apparel Coalition
- Textile Exchange

ronmental resources used throughout the product life-cycle. It is also an industry that creates millions of jobs, but where working conditions do not always live up to acceptable human rights and social standards. Second, we are part of the e-commerce industry. While the rise of online shopping has brought positive effects, such as reducing structural inefficiencies through more centralized and efficient storage and distribution, it has also created new challenges, including the inefficient use of packaging material and carbon emissions associated with delivery and returns.



With this in mind, we stated our sustainability vision in 2019: to be a sustainable fashion platform with a net-positive impact for people and the planet. Being a platform allows us to introduce mechanisms and set incentives that encourage both customers and partners to make more sustainable choices. Having a net-positive impact means that we run our business in a way that we give back more to society and the environment than we take. We center our efforts on people and the planet, tackling climate change, the unsustainable use of natural resources and promoting human rights and good working conditions for our employees and the people working in our supply chains.

Reaching our sustainability vision will require much more than just a few changes here and there. It will require us to transform the way our business and our industry operates. How can we run logistics without causing GHG emissions? How can we turn the fashion industry into a truly circular economy? And how can we remove human rights violations from our supply chain once and for all? We feel motivated by the fundamental nature of these questions and will work hard over the coming decades to make our contribution to resolving them.

Yet, the need for change is urgent. This is why our open-ended vision is accompanied by six specific and ambitious targets to generate tangible impact in the coming years:

- **We are carbon neutral in our own operations and aim for a 1.5°C pathway:** By 2025⁴ we have achieved our science-based targets to reduce carbon emissions in line with the Paris Agreement, including an 80% reduction in emissions from our own operations compared to 2017.
- **We apply the principles of circularity to our packaging:** By 2023, we design our packaging to minimize waste and keep materials in use, specifically eliminating single-use plastics.
- **We enable customers to make more sustainable choices:** By 2023, we generate 20% of our GMV (Gross Merchandise Volume) with more sustainable products. *Based on our fast progress, we upgraded our target to 25% by 2023.*
- **We contribute to make the fashion industry circular:** By 2023, we apply the principles of circularity and extend the life of at least 50 million fashion products.
- **We aim to eliminate human rights violations in our supply chain:** By 2023, we have continuously increased our ethical standards and only work with partners who align with them.
- **We prepare our workforce for the future:** By 2023, we have supported 10,000 people in the workforce by providing skilling opportunities that match future work requirements.

Selected Rankings & Ratings

CDP

In 2020, Zalando was recognized for leadership in corporate sustainability by global environmental non-profit CDP, securing a place on its prestigious “A List” for tackling climate change. CDP’s annual environmental disclosure and scoring process is widely recognized as the gold standard for corporate environmental transparency. We also received an “A” Supplier Engagement Rating (SER), meaning we made it onto the CDP Supplier Engagement Leaderboard for raising the level of our climate ambition across our value chain.

ISS and Sustainalytics

We achieved a Prime Status in the ISS ESG rating, receiving the absolute rating score B-, and achieved Leader Level in the category retail of the Sustainalytics rating, with a low risk score of 11.6.

Fashion Transparency Index

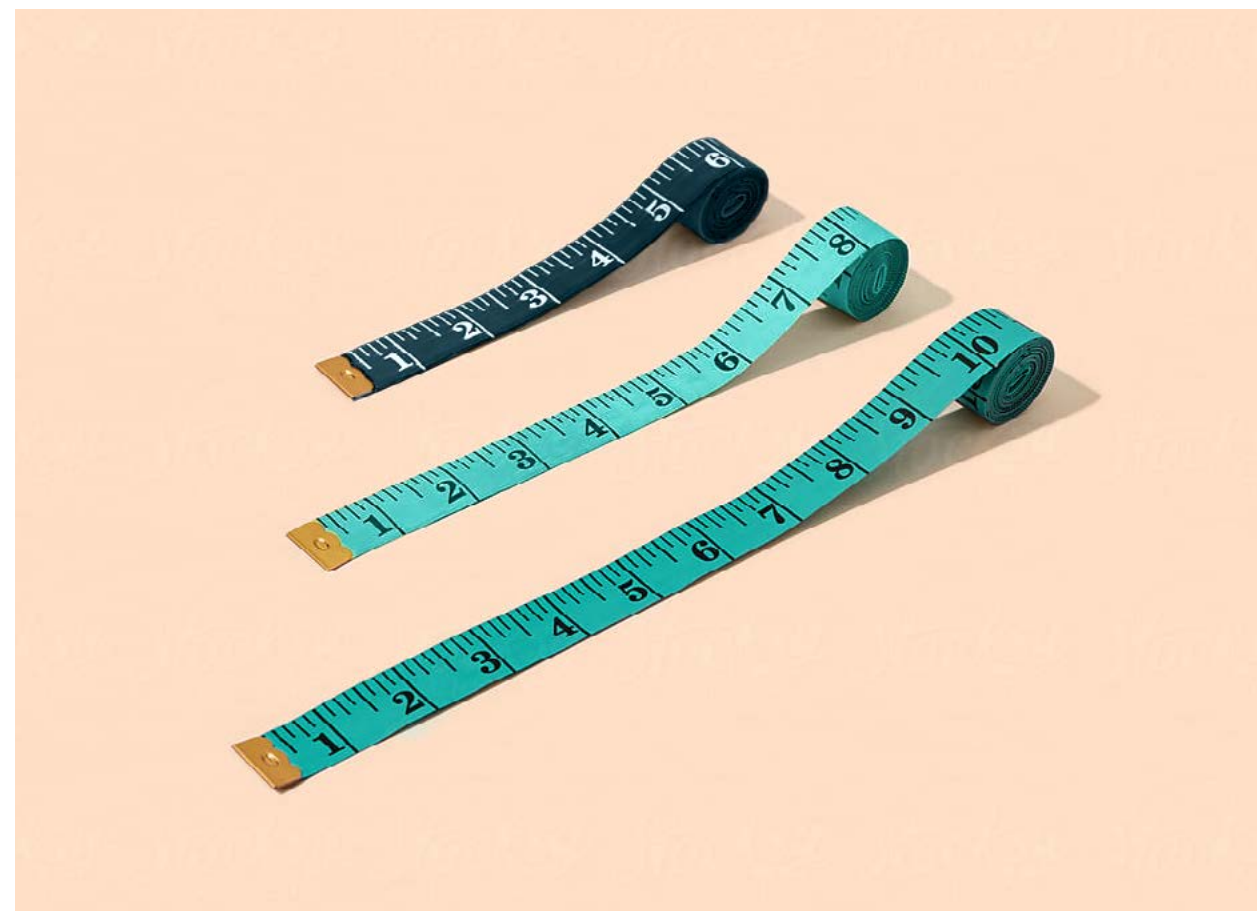
In 2020, Zalando scored 39% on the Fashion Transparency Index (2019: 28%, 2018: 27%, 2017: 16%). This is an annual ranking, assessing the level of transparency fashion brands provide. In 2020, we published 100% of our private label tier 1 suppliers. We are committed to increasing transparency and disclosing more of our supply chain on an ongoing basis.

⁴ Targets must cover a minimum of 5 years and a maximum of 15 years from the date the target is submitted to the SBTi for an official validation.

Materiality and Reporting Standards

The content of this report is based on our do.MORE strategy and the materiality analysis that we finalized in 2019. In order to identify the most material topics for Zalando, we created a shortlist of 18 sustainability topics, categorized along three value chain stages (product manufacturing, operations, consumers). The list was validated and ranked with surveys of 7,800 customers and 1,700 employees, as well as interviews with 15 experts. The analysis resulted in 15 material topics based on the Global Reporting Initiative (GRI) standard (8 in accordance to the CSR Directive on Non-Financial Reporting) and was leveraged to prioritize our efforts within our do.MORE strategy.

This report references the international standards of the GRI. The GRI Index, as well as our combined Non-Financial Report, can be found in the annex. We also applied the TCFD standard to our annual CDP Climate Report.



In 2020, we kicked-off our work on all six goals — creating important foundations in some areas and building on previous learnings in others. Over the coming year, we will continue to accelerate our efforts, making significant investments in the future of our business and the planet. As a first major step, we have decided to raise our target for GMV generated from more sustainable products to 25% by 2023, while at the same time making our sustainability product criteria more stringent. We will increase transparency, and ensure our stakeholders can engage us with the latest information and data at hand. And through an annual sustainability review, we will continue to assess our progress and ambitions, based on our learnings and opportunities.

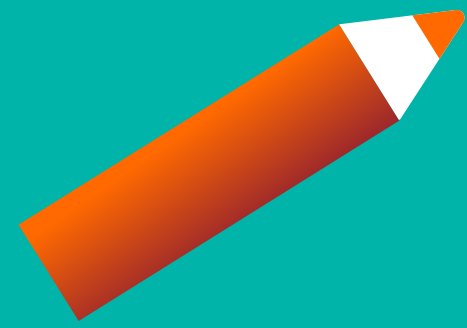
As a platform, we are privileged to be in a position to promote industry-wide solutions. We identify the areas in which we can drive change through our position and reach, ranging from strict requirements (e.g. setting standards for our partners and only working with those who align with them) to positive incentives (e.g. giving more visibility to our sustainability assortment). Most importantly however, we need to join forces across the industry to solve systemic issues, such as moving toward a circular economy and affecting change throughout our interconnected supply chains (e.g. setting science-based targets and raising

the bar on ethical standards). To drive change in the industry, we all need to coordinate and collaborate to make change happen quickly: in the decisions we make, in how we run our businesses, and in the standards we set for ourselves and others. Through our dedicated sustainability strategy, we aim to elevate our own ambitions and inspire those we work with.



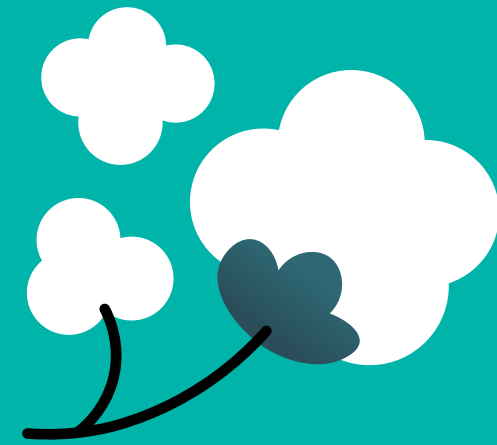


Zalando Value Chain



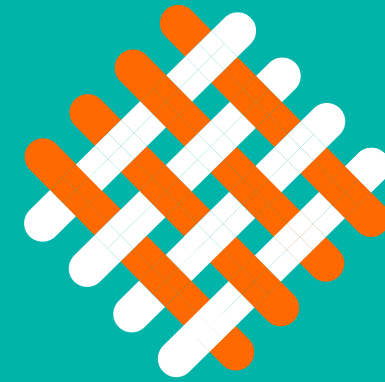
01 Design

Designing products by choosing material, look, style and quality.



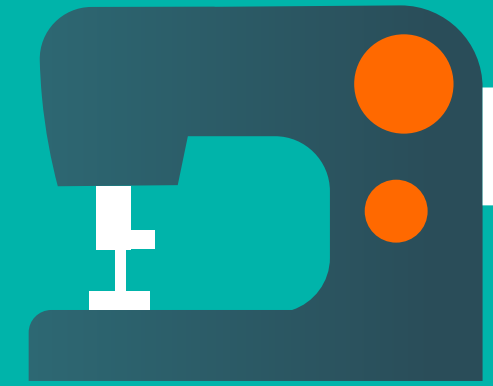
02 Raw materials

Sourcing and processing raw materials.



03 Material and component production

Conversion of fibers into yarn and yarn into fabric.



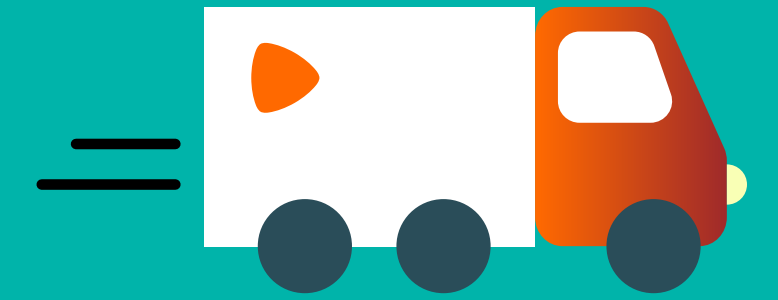
04 Product manufacturing

Working with suppliers and factories to create products.



05 Procurement & buying

Defining product assortment from more than 3,500 brands.



06 Transport

Products are transported to fulfillment centers.



12 Close the loop

Products should be recycled, fed back into production or returned to the earth at the end of their useful life.



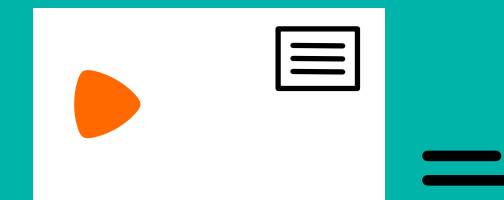
11 Reuse

Our customers can give products another life, for example through trade-in to Zalando Pre-owned or donation.



10 Use

Our customers wear and care for their products.



09 Distribution

Our logistics partners deliver products to our customers.



08 Fashion Store

Our platform for fashion and lifestyle provides access to exciting products and services.



07 Fulfillment

Products are stored in fulfillment centers and prepared as soon as customers place an order.

Employee Data

Total Number of Employees

14,194

2019 13,763
2020 **14,194**



Employment Contracts

2,220



Temporary

		Total	Men	Women
2019	2,648	19%	18%	21%
2020	2,220	16%	15%	17%

Employment Type

1,674



Part-time

		Total	Men	Women
2019	1,790	13%	7%	20%
2020	1,674	12%	6%	18%

New Hires

3,092



	Total	Men	Women
2019	4,665	49.8%	50.2%
2020	3,092	55.7%	44.3%

Voluntary Turnover Rate

9.4%



	Total	Men	Women
2019	13.9%	57%	43%
2020	9.4%	48%	52%

Number of Nationalities

137

2019 139
2020 137



Share of Women in Leadership

	2020	2019
Overall	46%	47%
Supervisory Board	56%	22%
Management Board	0%	0%
SVP	36%	33%
VP	20%	23%
Director	40%	33%
Head	29%	30%

Employees per Country

	2020	2019
China	17	17
Germany	13,617	13,273
Hong Kong	1	2
Ireland	118	116
Italy	49	30
Netherlands	2	0
Norway	105	94
Poland	183	154
Portugal	2	2
Spain	1	5
Switzerland	29	8
UK	70	62

International Employees

	2020	2019
Overall	53%	49%
Supervisory Board	67%	33%
Management Board	20%	20%
SVP	18%	0%
VP	43%	42%
Director	53%	55%
Head	44%	38%

Parental Leave

706

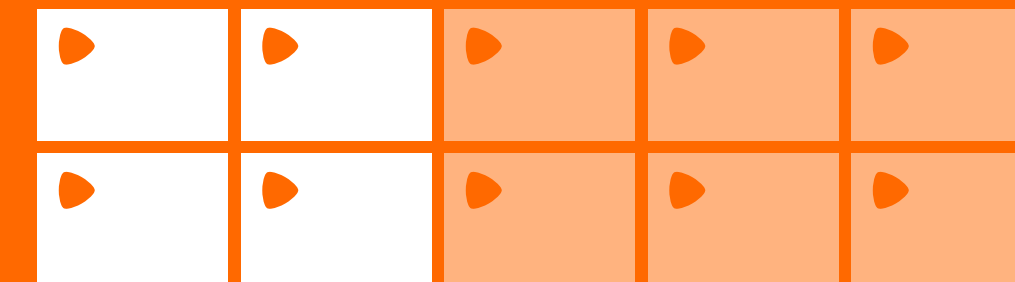


	Total	Men	Women
2019	489	39%	61%
2020	706	34%	66%

Share of Women in Logistics

40%

	Men	Women
2019	60%	40%
2020	60%	40%



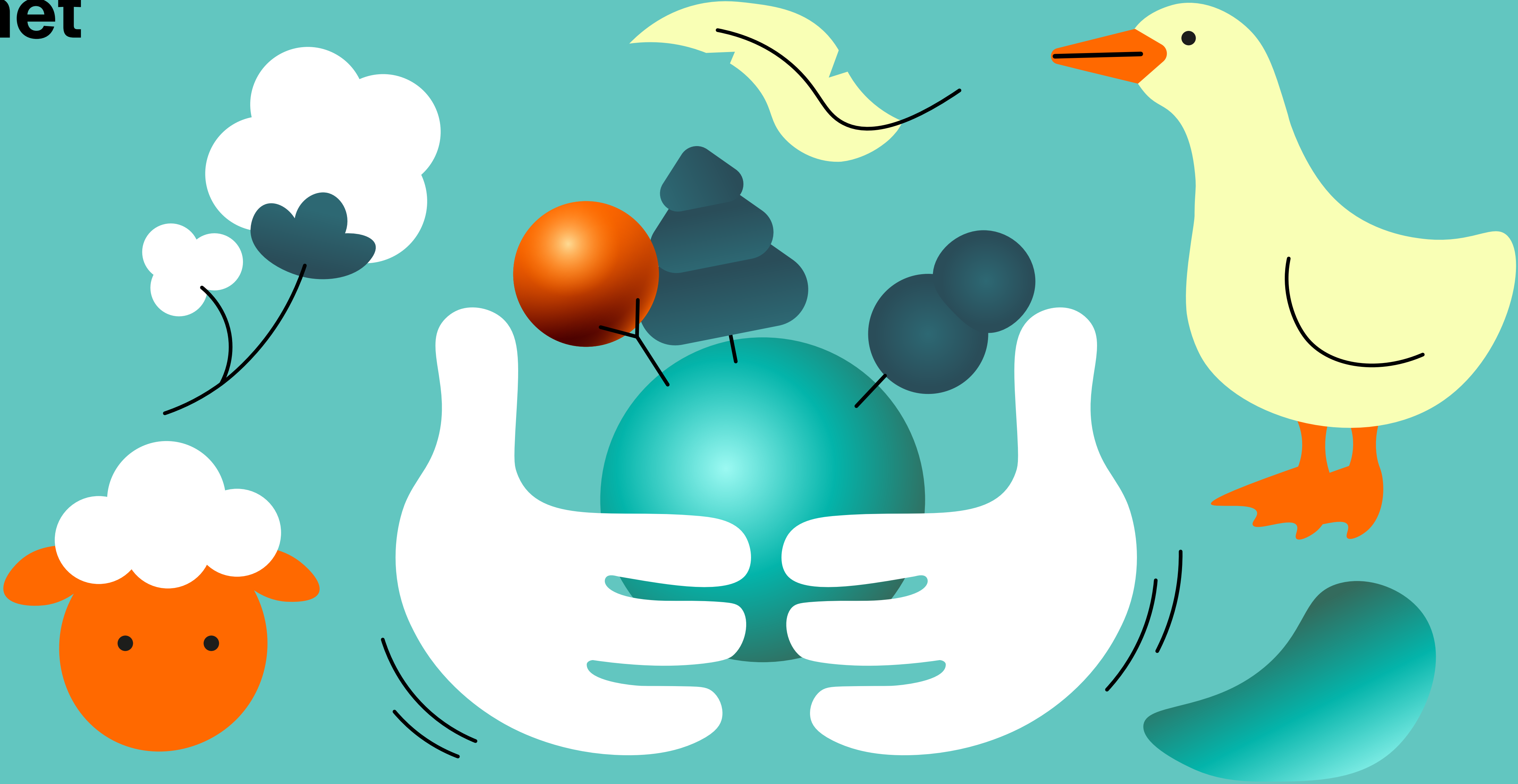
Share of Women in Technical Job Groups

17%

	Men	Women
2019	82%	18%
2020	83%	17%



Planet





Driving Carbon Emissions to Zero — a Race Against Time



Since the 1880s, the average global temperature has risen by about 1.1 degrees Celsius, with significant regional variations.⁵ Science tells us that this warming boosts the probability of a range of climate hazards, including extreme heat and humidity, and damaging precipitation events. Climate models predict that global warming is “locked in” over the next decade and that the temperature will continue to rise for decades to come. This can only be stopped if the world achieves net zero emissions of greenhouse gases (GHGs).

The primary driver of temperature rises over the past two centuries is human-caused emissions of GHGs. Since the industrial revolution, humans have released nearly 2.5 trillion tonnes of CO₂ into the atmosphere, which has increased concentrations by half. The fashion industry is estimated to be responsible for 4% of annual emissions, the same as Germany, France, and the United Kingdom combined.⁶

Under the Paris Agreement on climate change, governments have agreed to an objective to limit global warming to well below 2 degrees Celsius, and preferably to 1.5 degrees. We strongly support the agreement and want to play our part in achieving the objectives. Together, we are in a race against time to get there.

⁵ NASA GISTEMP (2019) and Nathan J. L. Lenssen et al., “Improvements in the GISTEMP uncertainty model,” *Journal of Geophysical Research: Atmospheres*, June 2019, Volume 124, Number 12

⁶ Fashion on climate, McKinsey & Co, August 2020

What are Scope 1, 2, and 3 emissions?

Our Scope 1 emissions are direct emissions from our owned or controlled sources, such as the gas for heating our offices and warehouses. Scope 2 emissions comprise indirect emissions from purchased electricity for our offices and warehouses. Scope 3 emissions include all other indirect emissions that occur in the value chain, production of products, logistics, services provided by our partners, and the use and disposal of products by our customers. For comparability, all greenhouse gas emissions, including those of methane and nitrous oxide, are described in terms of “CO₂ equivalents (CO₂e)”.



ghgprotocol.org



What Is the SBTi?

- The Science Based Targets initiative (SBTi) is a collaboration between CDP, the United Nations Global Compact, World Resources Institute (WRI) and the World Wide Fund for Nature (WWF).
- The SBTi defines and promotes best practice in science-based target setting and independently assesses companies' SBTs.
- The SBTi assesses and approves SBTs, guaranteeing external validation and ensuring the targets are in line with the Paris Agreement.



sciencebasedtargets.org

Our Commitment

By 2025 we have achieved our science-based targets to reduce carbon emissions in line with the Paris Agreement, including an 80% reduction in emissions from our own operations compared to 2017.

Our Science-Based Targets:

In 2020, we adopted science-based targets (SBTs) for Scope 1, 2 and 3 emissions under the Science Based Targets Initiative (SBTi) and in line with the Paris Agreement on climate change. An SBT, by definition, must be aligned with the level of decarbonization required to keep the global temperature increase well below 2°C and ideally to 1.5°C. Our target is aligned with the 1.5°C goal.

- Zalando commits to reduce Scope 1 and 2 greenhouse gas (GHG) emissions by 80% by 2025 against a 2017 base year. Zalando commits to increase annual sourcing of renewable electricity from 34% in 2017 to 100% by 2025.
- Zalando commits to reduce Scope 3 GHG emissions from private label products by 40% per million euros gross profit by 2025 from a 2018 base year. Zalando also commits that 90% of its suppliers (by emissions covering purchased goods and services sold on its platform, packaging and last-mile-delivery partners) will have set science-based targets by 2025.

Our Progress

Doing Our Homework: Reducing Carbon Emissions in Scope 1 and 2

Last year we joined the [RE100 initiative](#) and pledged to source 100% renewable electricity in our own operations by 2025, as part of our science-based targets. We are proud to say that we have achieved this in 2020 already. We source renewable electricity, purchase guarantees of origin, and have installed solar panels at our fulfillment centers in Lahr (Germany) and Verona (Italy), producing more than 3.8 million kWh of renewable electricity per year, equivalent to the annual consumption of almost 1,000 households.

These activities have led to 64% reduction of our Scope 1 and 2 GHG emissions from a 2017 baseline. In order to achieve our reduction target of 80%, we will continue to equip our fulfillment centers with solar panels or other green technologies. Additionally, in 2021 we will start switching our fulfillment centers in Germany from natural gas to biogas, with an estimated emissions reduction of up to 1,700t CO₂, or 20%, in our Scope 1 and 2 emissions. All new Zalando buildings will also require a green building certification, which verifies that they are built in a way that conserves resources and generates fewer greenhouse emissions.

Emissions in Our Own Operations (Scope 1 and 2)





Electricity From Renewable Resources (in MWH)

114,527

2020

97,432

2019

73,887

2018

17,286

2017





Fast-Tracking Carbon Removal

Through our do.MORE strategy, we reached carbon neutrality in our own operations (Scope 1 and 2), as well as deliveries, returns and packaging (Scope 3) as of 24 October 2019. We have achieved this through reduction measures and purchases of carbon offsets via carbon removal projects.

Carbon offsetting is a process by which GHG emissions are “offset” by actions to reduce carbon in the atmosphere, for example planting a tree or installing solar panels. Offsets are measured in tonnes of carbon dioxide-equivalents (CO_{2e}). In practice, this process is regulated by the purchasing of certificates or carbon credits. Working with the environmental consultancy [Forlance](#), we have committed to [Gold Standard](#) and [VCS](#) certified reforestation projects in Ethiopia, Uganda, Colombia, Panama, and Indonesia. The projects restore native forests, encourage sustainable planting, and support local communities. Reforestation removes carbon dioxide from the atmosphere through photosynthesis and turns it into biomass.

We believe that one of the most important contributions we can make to carbon reduction will come from engaging our customers and partners in this journey. We also know that our customers want to take action on climate change and are aware that their actions can have an impact. That’s why we offer customers a check-out option to contribute towards these efforts with a per order fee of 25 ct.



“We applaud Zalando’s leadership in setting science-based targets and taking responsibility for the emissions they cannot yet eliminate by financing climate action beyond their boundaries. By using Gold Standard carbon credits, Zalando shows a commitment to high-integrity carbon offsetting for real and permanent impact.”

The Gold Standard Foundation

What Is Better From an Emissions Perspective: Shopping Online or Offline?

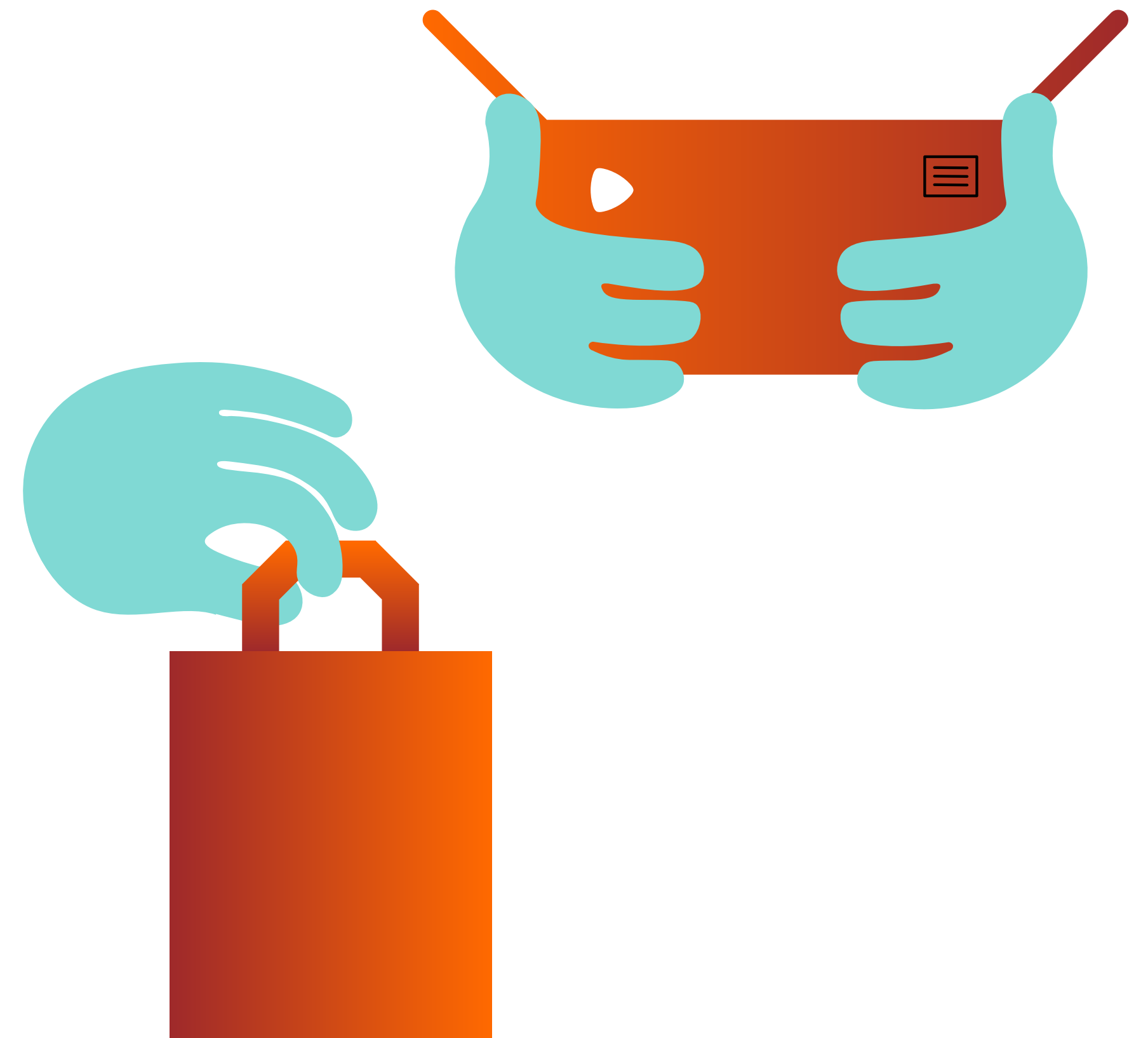
We want our services to be as convenient as possible for our customers, but also as sustainable as possible. For that reason, we are keen to understand the science around emissions in e-commerce, compared with emissions in traditional physical retail models. A recent study by the German Federal Environment Agency (UBA) on the carbon footprint of e-commerce, highlights that up to three quarters of GHG emissions occur during production. The impact of distribution, including packaging and transportation, amounts to a comparatively small share (1–10% of emissions). The study shows that online shopping can be more environmentally friendly than offline shopping when using a car, due to better and more efficient vehicle utilization. Our own data confirms the small share of emissions from distribution. However, we can still make an impact through efficient logistics and packaging, and are striving to do so (see Packaging chapter).

A particular challenge for e-commerce businesses is returns. While free returns are part of our customer proposition, we aim to reduce avoidable returns through personalized sizing and technology solutions. In 2020, we acquired Zurich-based software company Fision, which makes an innovative body scanning app and virtual dressing room to help customers easily see how a garment would fit. This will make our customers' lives easier and reduce cost and emissions.

Tackling Emissions in the Value Chain (Scope 3)

Scope 3 emissions are significantly more difficult to measure than Scope 1 and 2 emissions, due to the dispersed nature of the supply chain, and the many potential sources, which range from energy use to manufacturing processes, and even the washing of products purchased by customers on our platform. Still, we are able to estimate Scope 3 emissions and their sources, using the standard GHG protocol. As fashion demand continues to shift online, our emissions will naturally increase as we capture a higher share of the market. Our first priority is to ensure that Scope 3 emissions grow slower than the volume on our platform. As such, Scope 3 emissions grew 18% in the past year, while the gross merchandise volume on our platform grew by 30%. To exert as much influence as possible on Scope 3 emissions, we need to engage our partners. As per our SBTs, by 2025 we plan to engage our biggest partners, including brands, packaging suppliers and last-mile delivery partners, to set their own SBTs, thereby covering 90% of our supplier emissions. Currently, partners accounting for 34% of our 2020 supplier-related emissions have set science-based targets.

We have reduced Scope 3 emissions from private label products by 19% per million euros gross profit from a 2018 base year. While this was partly achieved by a slimming of the supply base in 2019, our profit growth has also contributed. In 2021, we will develop a decarbonization strategy for our private label products. We will research alternative materials and processes, and pursue emissions reductions in our supply chain.





Our Footprint

This is a year of significant change for our carbon accounting and reporting. In 2020, we extended the boundary of our carbon inventory to include new CO_{2e} emission categories. Hence, we now not only monitor all GHG emissions across our own operations (Scope 1 and 2) but also calculate and report relevant emissions in our value chain (all material Scope 3 categories). Examples include materials and assembly of products sold through our platform. Our aim is to gain a better understanding of the impact of our value chain beyond the distribution of the products we sell. To ensure comparability, we have also retroactively calculated the emissions from the newly added categories from 2017.

We reduced our market-based Scope 1 and 2 emissions by 64% to 9,316 metric tons of carbon dioxide equivalent, against a 2017 baseline year. Our Scope 3 emissions increased by 18% to 4,526,112 metric tons, compared to 2019. Our total market-based GHG emissions (Scope 1, 2 and 3) in 2020 were 4,535,428 metric tons of carbon dioxide equivalent, an 18% increase compared to 2019. A large majority of these emissions stem from the manufacturing of products that we sell across our business, which has seen strong growth over the past year.

● Scope 1 ● Scope 2⁷ ● Scope 3⁸

⁷ The location-based value for Scope 2 in 2020 is 76,462t CO_{2e}

⁸ Includes the following emission categories: purchased goods and services (Private Labels, Wholesale, Partner Program, Offprice, Zircle, packaging), purchased goods and services (non-product), capital goods, fuel and energy related activities, upstream transportation and distribution, waste generated in operations, business travel, employee commuting, downstream transportation and distribution, use of sold products, end-of-life treatment of sold products, investments

Our Carbon Footprint in Metric Tons CO₂ Equivalent (T CO_{2e})

2017



2018



2019

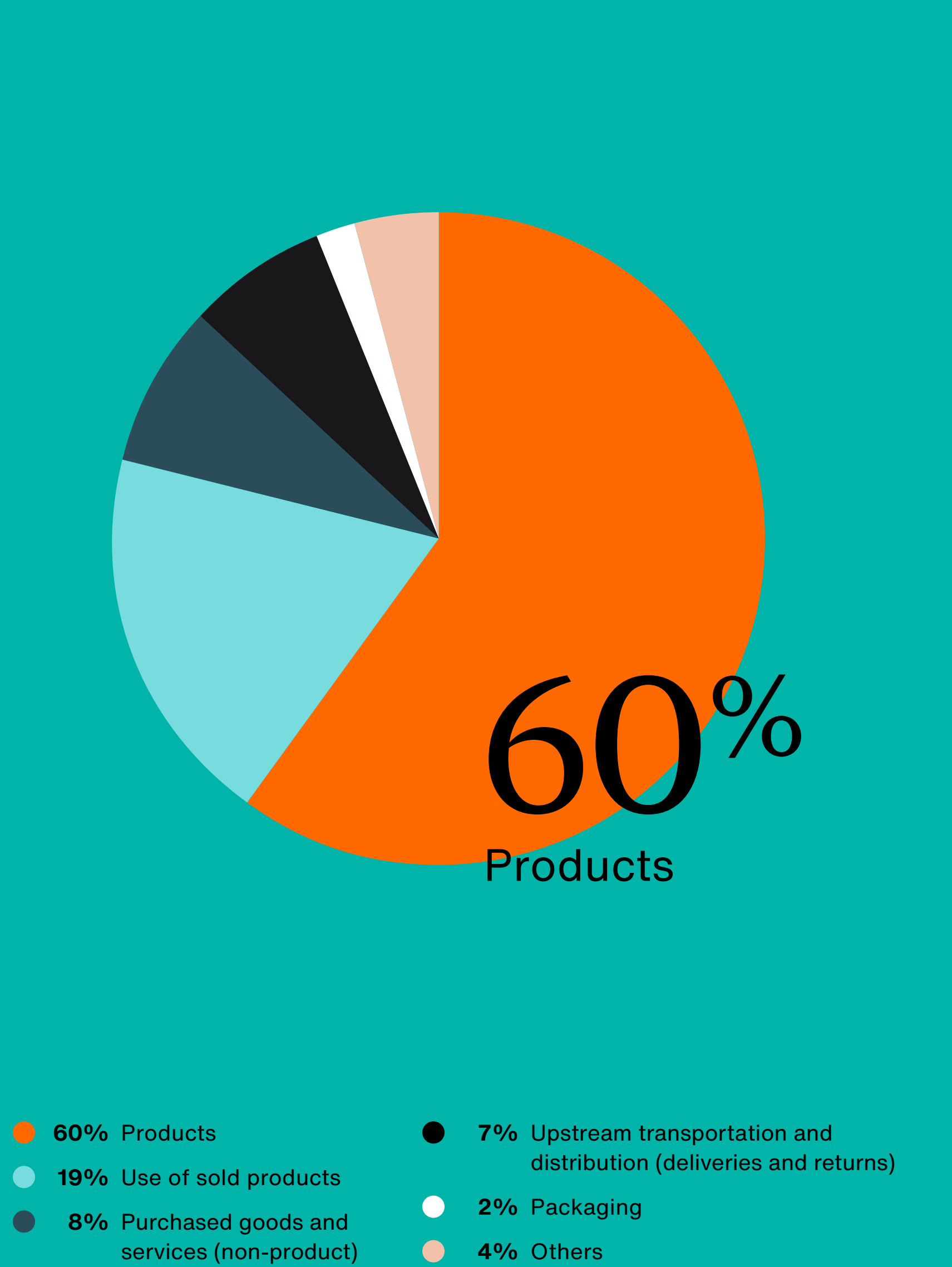


2020

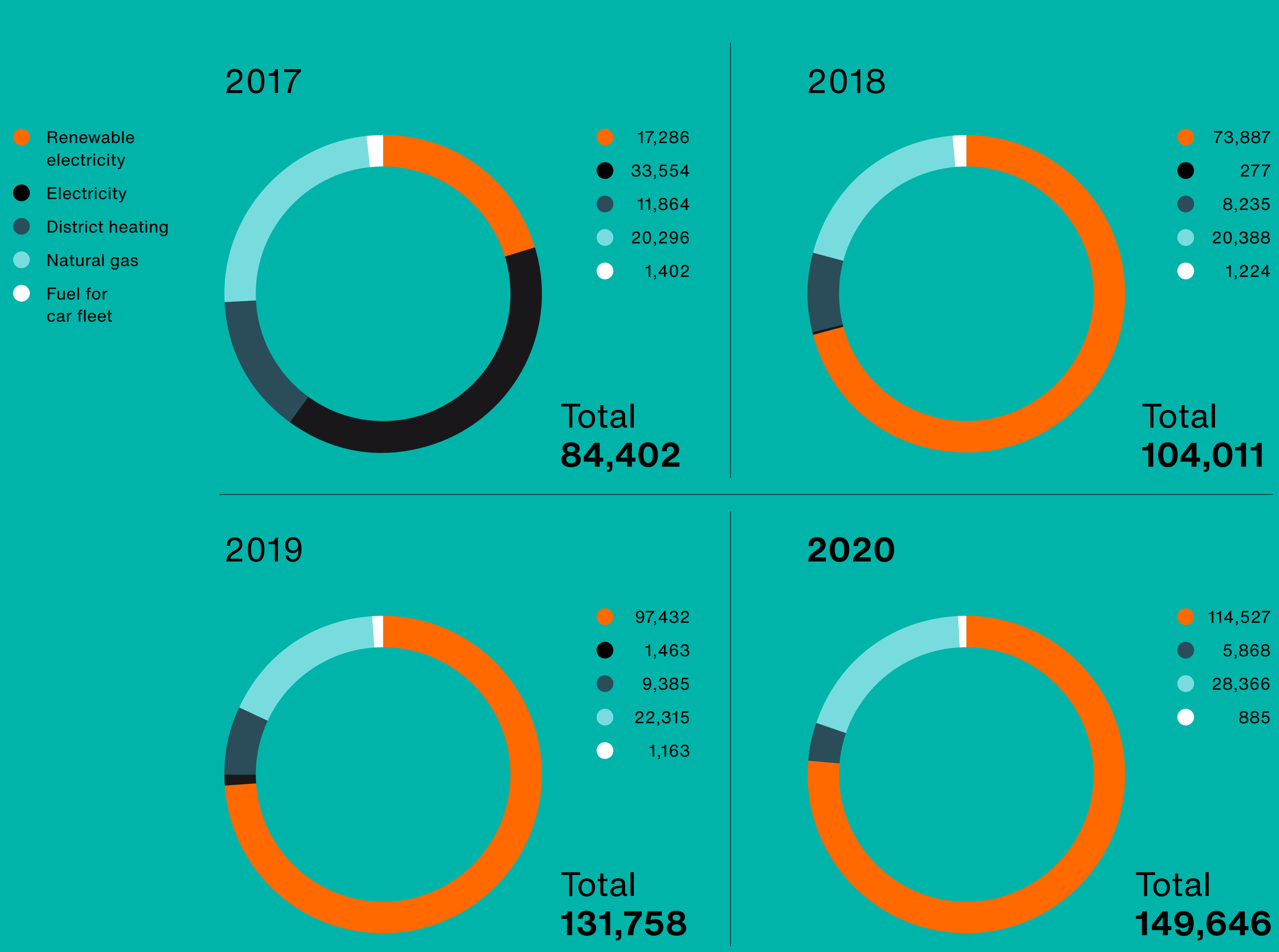




Scope 3 Emissions by Source 2020



Energy Use by Source in MWH (Scope 1 and 2)





Restoring Native Forests in Panama

“Our philosophy is about more than investment for financial returns, it’s also more about generating returns for nature. We aim to both help our investors achieve their aims while benefiting people and the environment.”

Yaels Camacho
Forestry Department Manager, ForestFinance

Yaels Camacho is a hero of reforestation in Panama, helping restore native forests, nurturing sustainable plantations, and pioneering agri-forest projects that create value and protect the environment. Yaels is also proud of her work with local communities, through which she encourages education and literacy and helps farmers transition to a more sustainable future.

Yaels was born in Costa Rica and took her degree in forest science studies at the “Instituto Tecnológico de Costa Rica”, near San José. She worked at the Costa Rican Ministry of Agriculture and later at world-leading agronomic centre CATIE. In 2005, Camacho moved to Panama, where she joined ForestFinance, one of the world’s leading providers of direct forest investments. ForestFinance is one of the developers of the Tropical Mix project, which Zalando supports via the purchase of carbon credits from its partner Forliance.

Amid a daily roster of forestry planning, research, and engagement, Camacho strives to make a positive impact on both ecosystems and communities. “Our philosophy is about more than investment for financial returns,” she says. “It’s also more about generating returns for nature. We aim to both help our investors achieve their aims while benefiting people and the environment.”



“My aim, working with my colleagues and communities, is to try to find ways to rehabilitate areas and let nature start to regenerate, as well as support projects that make economic sense.”



“I love working in these kinds of activities and sharing my knowledge and experience.”

Between 2001 and 2019, Panama lost 414,000 hectares (or 7.3%) of its tree cover, including 73,000 hectares of primary rainforest. The primary drivers of deforestation are cattle ranching and logging. In addition, illegal incursions onto indigenous lands are common and are a source of conflict that has led to the loss of life among indigenous people. Damage to ecosystems has been exacerbated by the expansion of commercial oil palm, new road networks, and mining.

“Many years ago, Panama was covered in forest, but that has changed over time towards increasing amounts of crop cultivation and livestock,” says Camacho. “My aim, working with my colleagues and communities, is to try to find ways to rehabilitate areas and let nature start to regenerate, as well as support projects that make economic sense.”

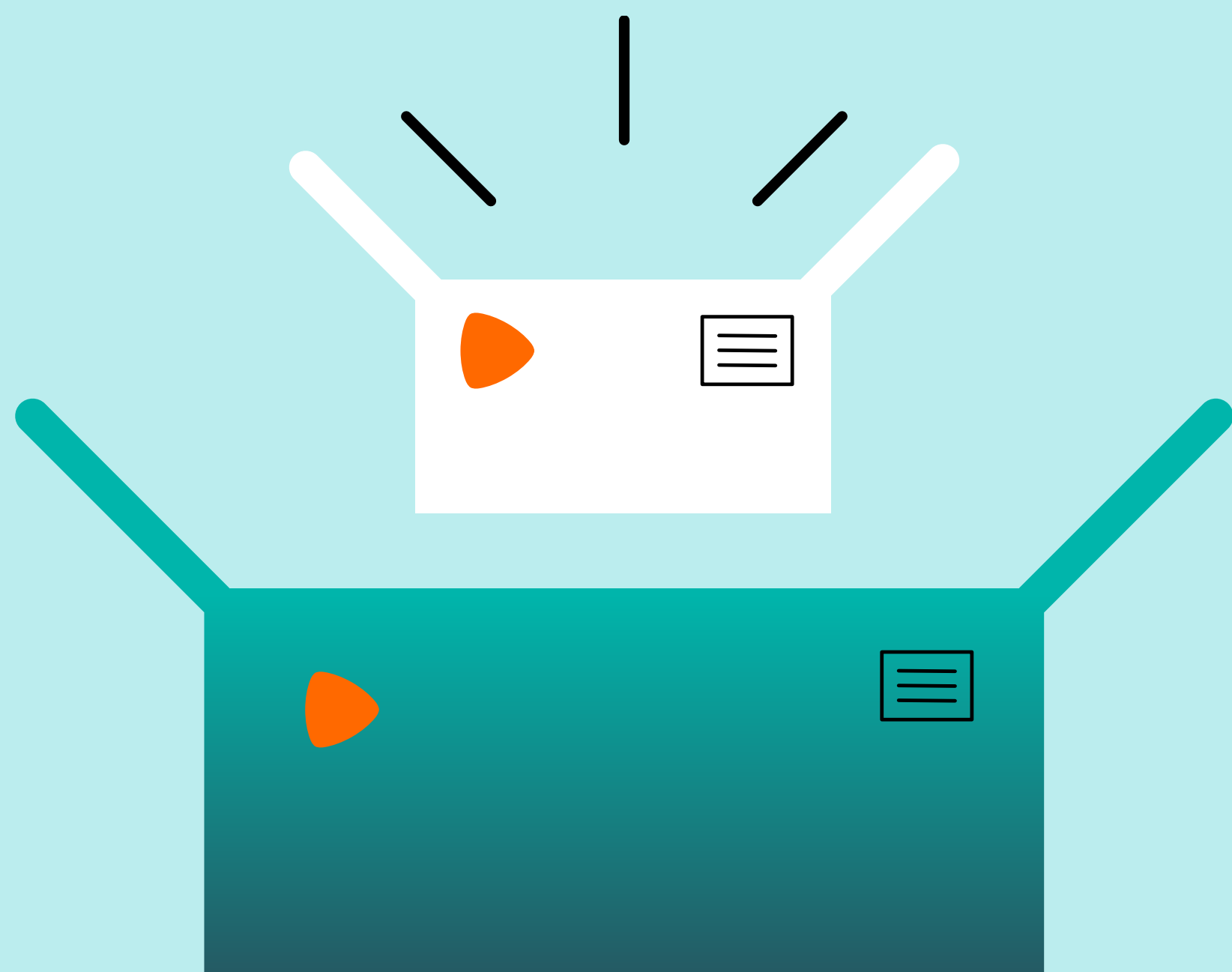
Camacho is particularly proud of her work with indigenous communities, where low levels of literacy and a lack of access to education create barriers to conservation. “Often people are not able to read or write, and because of their economic situation are forced to live from one day to the next. When you are concerned about day-to-day survival it’s difficult to think about environmental impacts that may happen 30 or 50 years ahead. Therefore, one of our priorities is to provide education and to help people understand how sustainable forestry can also be a route to a stable income.”

ForestFinance, which manages 2,200 hectares of reforestation projects and 1,000 hectares of protected zones in Panama, employs people from local communities in many of its forestry projects and partners with schools to teach children about the importance of environmental protection. It aims to help people understand the real benefits of thriving forest landscapes, for example in terms of preserving precious water resources (often lost when land is cleared for deforestation). More broadly, the Tropical Mix project that Zalando is supporting is managed by three separate project developers and the total area reforested is 8,450 ha.

“I love working in these kinds of activities and sharing my knowledge and experience,” says Camacho. “We work every day to enrich Panama’s environment and to get buy-in from local communities – through which we hope to improve lives now and in the future.”



Reimagine Packaging, Minimize Waste



The Challenge

A significant element of the e-commerce business model is the delivery of products directly to customers. Packaging's core function is to protect products through the various automated and manual processes involved in warehousing and transportation. While packaging sustainability is a key strategic topic, we must also ensure that our products arrive with our customers safely and undamaged. We also aim to create a convenient and enjoyable unboxing experience. In order to deliver on our vision to become a sustainable fashion platform, it is vital that we minimize waste and keep materials in use for as long as possible.

Our Commitment

By 2023, we design our packaging to minimize waste and keep materials in use, specifically eliminating single-use plastics

Our Progress

- Over the past year, we reduced the amount of single-use plastic in packaging per item shipped by 22% to an average of 7.8 grams.⁹

⁹ Single-use plastic packaging is plastic packaging intended to be used only once before disposed of. In scope is all customer-facing single-use plastic packaging procured by Zalando Group as an online retailer (excl. private labels and items shipped by partners).

22%

less single-use plastic packaging per item shipped

87%

of our packaging material stem from recycled input

- We also reduced the volume of single-use plastic packaging per item produced for our private labels by 13% to an average of 5.9 grams.¹⁰
- Of the 53,000 metric tons of packaging materials we used, 87% stem from recycled input and 99% was recyclable.

Our Roadmap

In all packaging activities, we strive to eliminate single-use plastics and move from a linear to a circular model. This aims to decouple economic activity from the consumption of finite resources and design waste out of the system.

We will leverage a systemic approach to our different packaging types by ramping up our materials innovation research, and making it easier for customers to return packaging to us, so that we can use it again and again.

¹⁰ Single-use plastic packaging is plastic packaging intended to be used only once before disposed of. In scope is all customer-facing single-use plastic packaging procured by Zalando private labels (our own fashion brands).

We Aim to Reduce Single-Use Plastics



+ **1**
Additional
Folding
Leads to



1/2
the Size of a
Polybag Which
Results in

50%
Less Plastic

One of the primary uses for single-use plastics in fashion is to make polybags, which are used to protect the individual items that we deliver to our customers. In our new Pre-owned category, we are piloting the use of plastic-free packaging by delivering pre-owned articles without polybags. In our Private Labels, meanwhile, we have reduced the size of polybags for individual products. We achieved this through the relatively simple process of more efficient folding. We successfully implemented efficient folding for several products, and plan to scale the standard over the coming months.





How Grass Paper Cuts Carbon Emissions

In principle, grass is available in large quantities and is a rapidly renewable resource. The production of the grass pellets requires significantly fewer energy resources than conventional raw materials for the paper industry. Estimates suggest that a ton of wood pulp requires about 6,000 liters of water and 5,000 kilowatt hours of energy to create paper, while the same amount of grass pulp could require just two liters of water and 137 kilowatt hours.

We are piloting the use of grass paper in the fabrication of shipping boxes for pre-owned items. The boxes are made out of 30% grass and 70% recycled paper. The grass element means that total carbon emissions are 18% lower than when 100% recycled paper is used.

We Use More Sustainable Materials

Another practical solution is to use alternative materials. Apart from polybags, a primary use for single-use plastics is for shipping bags. In the Nordics, we have piloted the replacement of plastic shipping bags with paper alternatives, and will start rolling this out across all markets in 2021. In our new Pre-owned category, we are piloting the use of plastic-free packaging and delivering pre-owned articles without polybags. Shipping bags are made of 100% recycled paper and shipping boxes are made of recycled paper and grass.

We also aim to use recycled and recyclable packaging materials. These avoid natural resource depletion and associated degradation, and stop waste going to landfill or incineration.

We Aim to Reuse Packaging

In contrast to single-use packaging, reusable packaging keeps materials out of the waste stream and reduces resource use. We plan to continue to explore how we can get more reused packaging into our shipments. In 2019 and 2020, we conducted a pilot in two phases:

Phase 1. In 2019, 20,000 customers in the Nordics received Zalando orders in reusable shipping bags. Through the pilot we learned that, in principle, reusable

packaging works in our warehouse and logistics processes. However, one key challenge was a low package return rate. The primary reasons for low returns were insufficient information to customers and related lack of understanding of the reuse concept, as well as inconvenience and a lack of incentives to return. There were also operational challenges associated with the process steps required to operate circular systems.

Phase 2. We adopted a more customer-centric approach, focused on encouraging return of reusable bags. New processes include informational emails, increased information on the outside of bags, and flyers in bags explaining the folding and return process. These improvements have boosted customer engagement and satisfaction, our research shows. Moreover, the return rate for reusable packaging rose by 52 percentage points.

Ultimately, reuse systems must be convenient, feasible, and sustainable. We will continue to explore reusable packaging systems that reduce the need for single-use packaging.



Our Materials



Mailing bags

80%

Post Consumer Recycled Plastic*



Polybags

90%

Recycled Plastic



Beauty bags

100%

Recycled Paper



Boxes

100%

Recycled Cardboard

* In 2021 we will roll out paper mailing bags.



The Polybag Challenge

Hundreds of billions of polybags are produced for the global fashion industry every year. Polybags are the thin, transparent plastic sleeves used routinely in the fashion industry to protect items when they are transported and processed. They generally need to be transparent to enable viewing of bar codes. Their main purpose is to shield products against moisture, dirt, and damage during storage, transportation, and processing. Despite the protection benefit they offer, they often end up in landfills or are incinerated, leading to the release of dangerous pollutants into the atmosphere. Other times, they are simply discarded. In addition, recycling is technically challenging and relies on consumer choice as well as sufficient infrastructure, which is unevenly developed across Europe.¹¹

According to a report published by Fashion for Good in collaboration with the Sustainable Packaging Coalition¹², brands and retailers can work on five strategies to improve polybag sustainability:

- 01** Look for opportunities to reduce the total amount of material in polybags.
- 02** Collaborate to implement closed loop systems, by designing polybags for recyclability and establishing collection and recycling systems.
- 03** Replace virgin, fossil-based plastics with bio-based drop ins and/or recycled content.
- 04** Keep an eye on the compostable packaging landscape, where options are developing but not yet ready for large scale rollout — due to limited collection facilities.
- 05** Explore the potential for innovative reusable polybag solutions.

¹¹ Plastics — the Facts 2017: An analysis of European plastics production, demand and waste data, PlasticsEurope, 2018.

¹² Polybags in the fashion industry: Evaluating the options, Fashion for Good and the Sustainable Packaging Coalition, December 2019

Operational Waste and Disposal Methods From Fulfillment Centers, Offices, and Stores (in Metric Tons)

	2020	2019	2018
Non-hazardous waste	25,164	22,112	18,912
Reuse	9	7	20
Recycling	23,606	19,794	16,763
Incineration (with energy recovery)	1,268	1,803	1,916
Incineration (without energy recovery)	281	508	213
Hazardous waste	3	2	2
Total	25,167	22,114	18,914

Mapping Our Operational Waste Footprint

As part of our journey to minimize waste, we are in the process of mapping our operational waste footprint. A significant proportion of waste is generated from packaging materials used for shipments and deliveries, and therefore our waste grows as our business grows.

At our offices and fulfillment centers, the vast majority of paper and plastic packaging material waste is collected for recycling. Waste is also generated in our offices and stores, where we encourage recycling by providing recycling bins. During the pandemic, health and safety restrictions have reduced our waste volumes in some locations. This is particularly relevant for our offices, stores and warehouse canteens — where activity was reduced during 2020.



Our Total Waste From Fulfillment Centers, Offices, and Stores (in Metric Tons)

22,114^t
2019

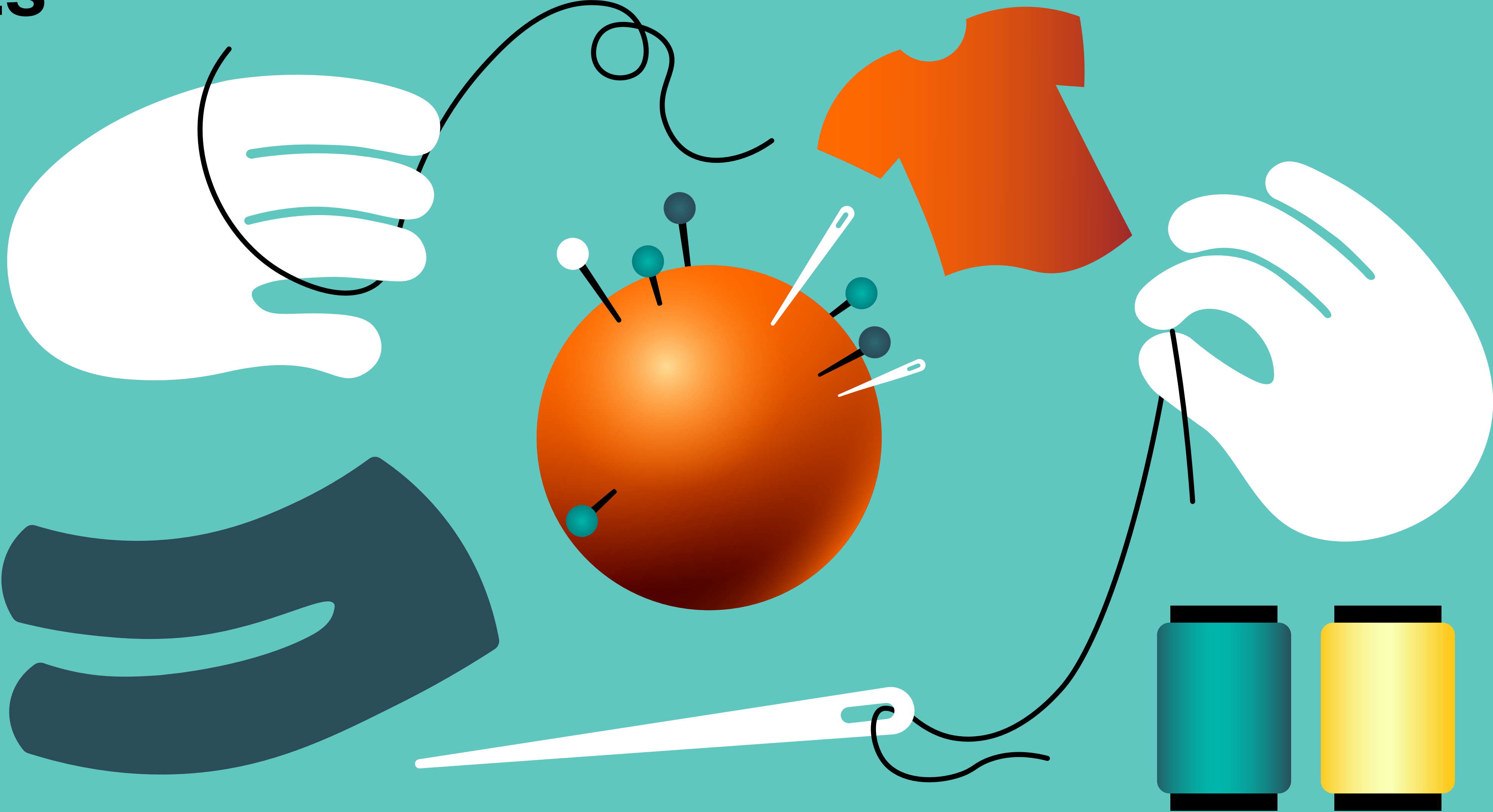


25,167^t
2020

18,914^t
2018

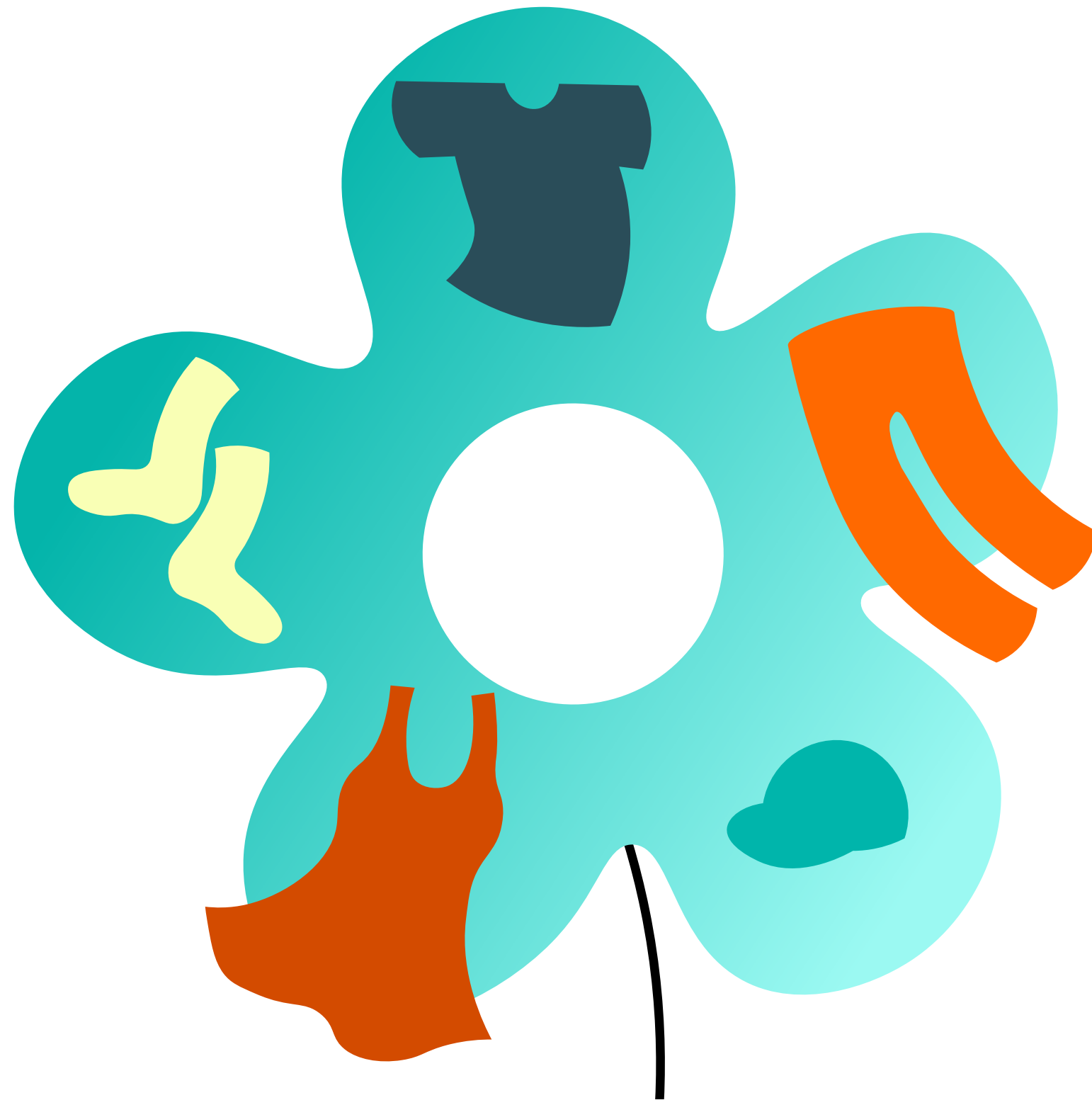
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Products





Defining Sustainable Fashion



The Challenge

Customers are increasingly shopping based on their values, but struggle to find the right information to help them to make more sustainable choices. Nine out of ten Generation Z customers believe companies have a responsibility to address environmental and social issues¹³, and one in four Zalando customers actively consider sustainability when making a purchasing decision. Despite increasing awareness, however, there is no industry-wide definition of “sustainable fashion”. This lack of a global standard means that brands and retailers fall back on their own definitions, which can lead to customer confusion.

As Europe’s leading fashion and lifestyle platform, offering more than 700,000 products from over 3,500 brands, we want to lead the industry toward a single common standard for sustainability. We aim to achieve this through our partnership with the Sustainable Apparel Coalition and the Higg Index suite of tools, which will help us provide trusted and comparable information to our customers. As we move toward that target, we are already taking action to highlight the benefits of our growing sustainability assortment.

¹³ The influence of “woke” consumers on fashion, McKinsey & Co, Feb. 2019

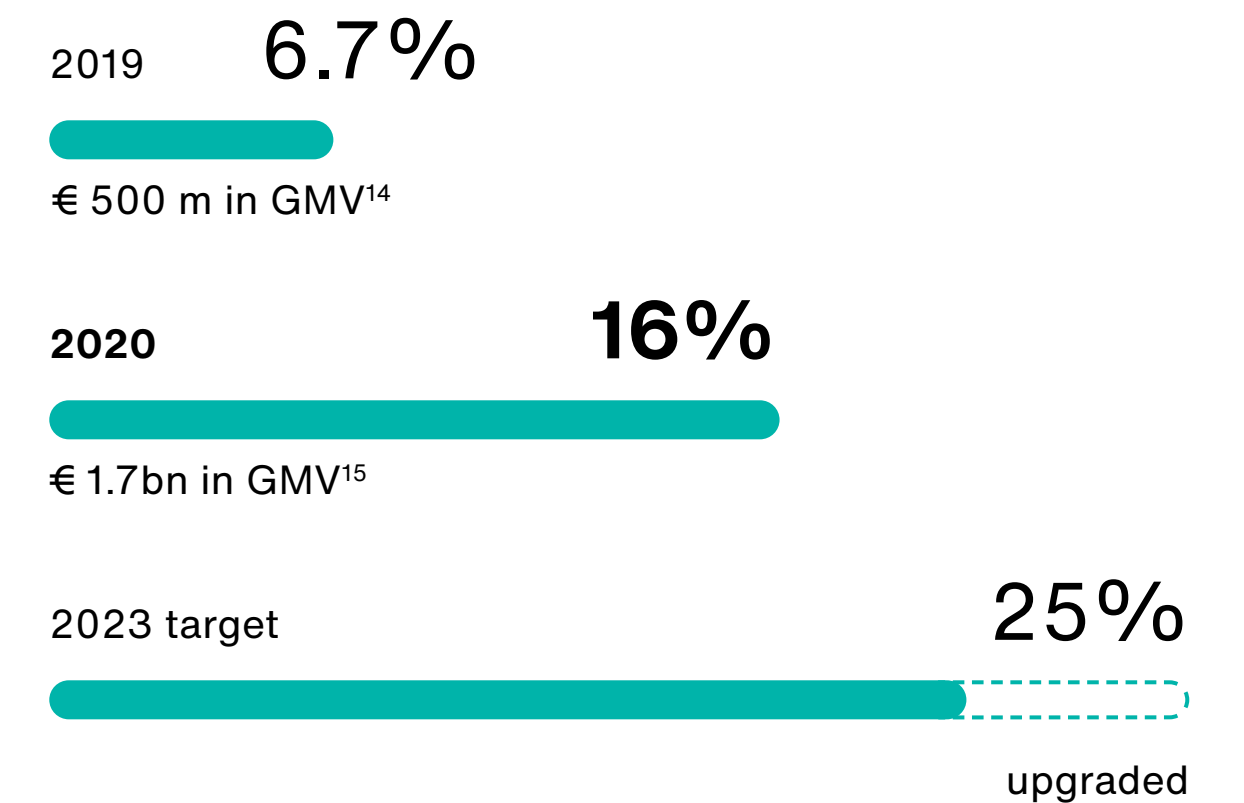
Our Commitment

By 2023, we generate 20% of our GMV (Gross Merchandise Volume) with more sustainable products.

We believe we can challenge ourselves, and our partners, to go further, which is why we have decided to raise our standards and our target to 25% by 2023.

GMV From More Sustainable Products

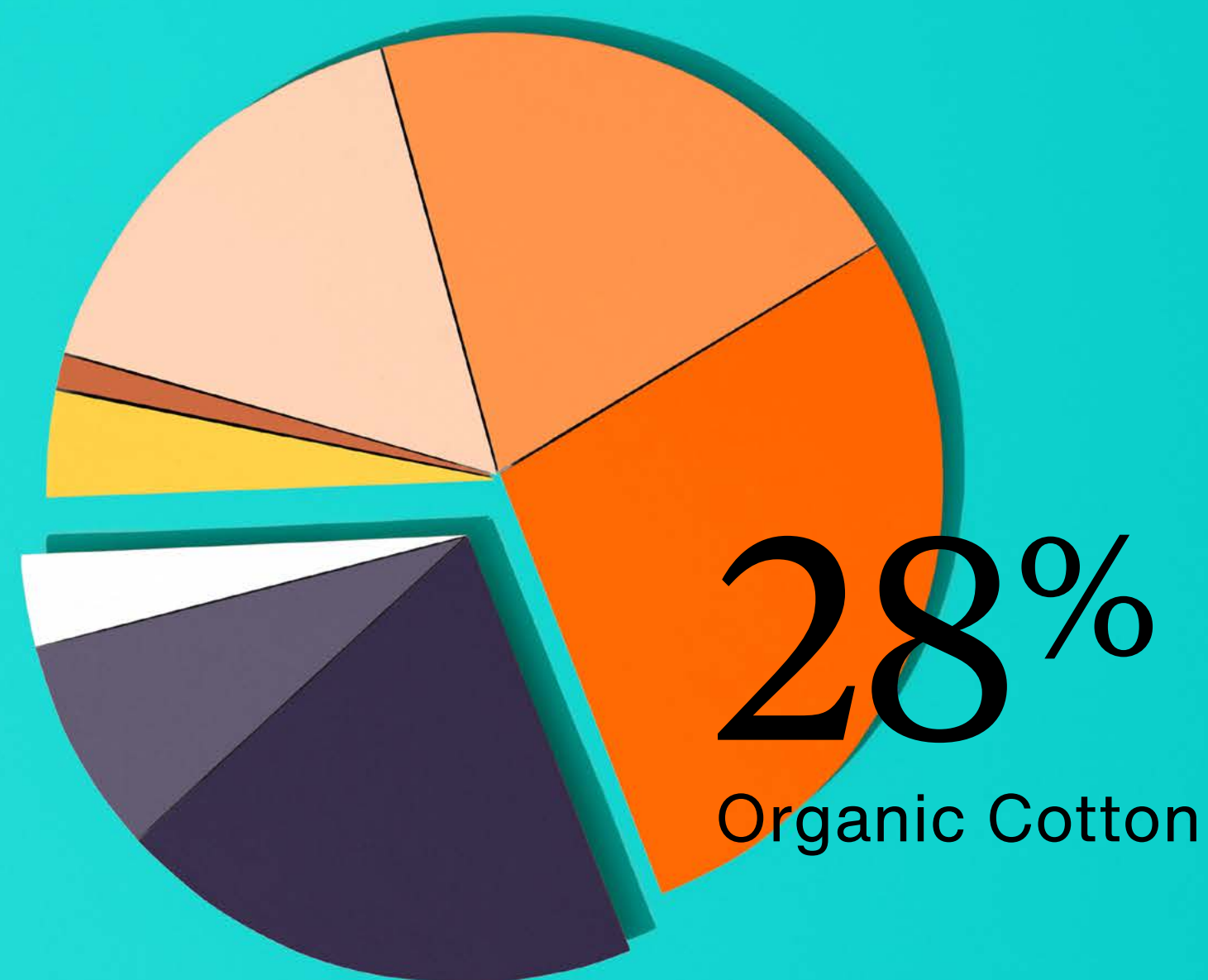
Percent of GMV



¹⁴ Zalando Fashion Store, after returns

¹⁵ Zalando Group, after returns

Criteria Used in Sustainability Flag



Zalando Logos

- 28% Organic Cotton
- 21% Recycled Material
- 16% Eco-Material
- 1% Beauty
- 4% Other

Third-Party Standards

- 19% Better Cotton Initiative
- 8% Leather Working Group
- 3% GOTS

Our Progress

- In 2020, we more than tripled our assortment to more than 80,000 more sustainable products, compared with 25,000 a year earlier. The sale of these products accounted for around 16% of our Gross Merchandise Volume¹⁶, up from 6.7% in 2019¹⁷, indicating significant progress toward our goal.
- In 2020, almost 50% of our customers bought at least one product carrying the sustainability flag, compared with just 18% at the beginning of the year. This suggests that our customers' appetite for choices that reflect their values is growing fast.

Setting Standards

Our Ethical Sourcing Standards aim to ensure that all the goods we sell have been produced in an ethical and environmentally responsible manner. The policy, which defines minimum requirements for the use of specific fibers, materials and manufacturing methods, is complementary to our Code of Conduct and other minimum requirements, and sets a baseline for social, environmental, and chemical compliance. It applies to all business partners, including suppliers, agents, and trading companies.

What Counts as “More Sustainable”?

Our customers tell us that sustainability can be complex to understand and that they look for product information that is simple, credible, and comparable. We aim to provide our customers with reliable information on the sustainability

of the products they buy, and at the same time create incentives for our brand partners to provide customers with more sustainable products. For easy signposting, we provide a sustainability filter in our Fashion Store and a sustainability flag on our products. These highlight products that have one or more sustainability benefits, compared to a conventional product of the same type. Moving a level deeper, we provide detailed information about the benefits on a product detail page. These might include third-party certifications such as the Global Organic Textile Standard or Fairtrade Cotton. This information is collected from suppliers and verified by our teams. The criteria we use for products to carry the sustainability flag cover a range of environmental, social, and animal welfare topics and are aligned with industry best practice, including third-party standards and data from the Sustainable Apparel Coalition's Higg Materials Sustainability Index (MSI).

We raise our minimum requirements on a yearly basis to drive positive change in the industry and scale innovation. For example, in 2020 we raised our recycled content mini-

¹⁶ For the Zalando Group, after returns

¹⁷ For the Zalando Fashion Store, after returns



Through our ongoing collaboration with Textile Exchange and other certification bodies, we set criteria for products to carry the sustainability flag. This has helped drive an increase in the number of brands and manufacturers certified to organic and recycled content standards.

Improving Sustainability in Our Private Labels
 Since 2020, all of our ZIGN private label products, and 50% of our private label products overall, have fulfilled our sustainability criteria and carried the sustainability flag online. To achieve this, we have worked closely with our suppliers to ensure that our private label products meet or exceed the standards we set for third-party brands. In 2020, 166 factories supplying our private labels, representing 90% of our production volume, completed the SAC's Higg Facility Environmental Module

50%

of our private label products fulfilled our sustainability criteria

and shared their results. In 2020, we renewed our Responsible Down Standard certification and were successfully certified to the Responsible Wool Standard, the Organic Content Standard, and the Recycled Content Standard. We have set bold sourcing targets to drive uptake of more sustainable materials.

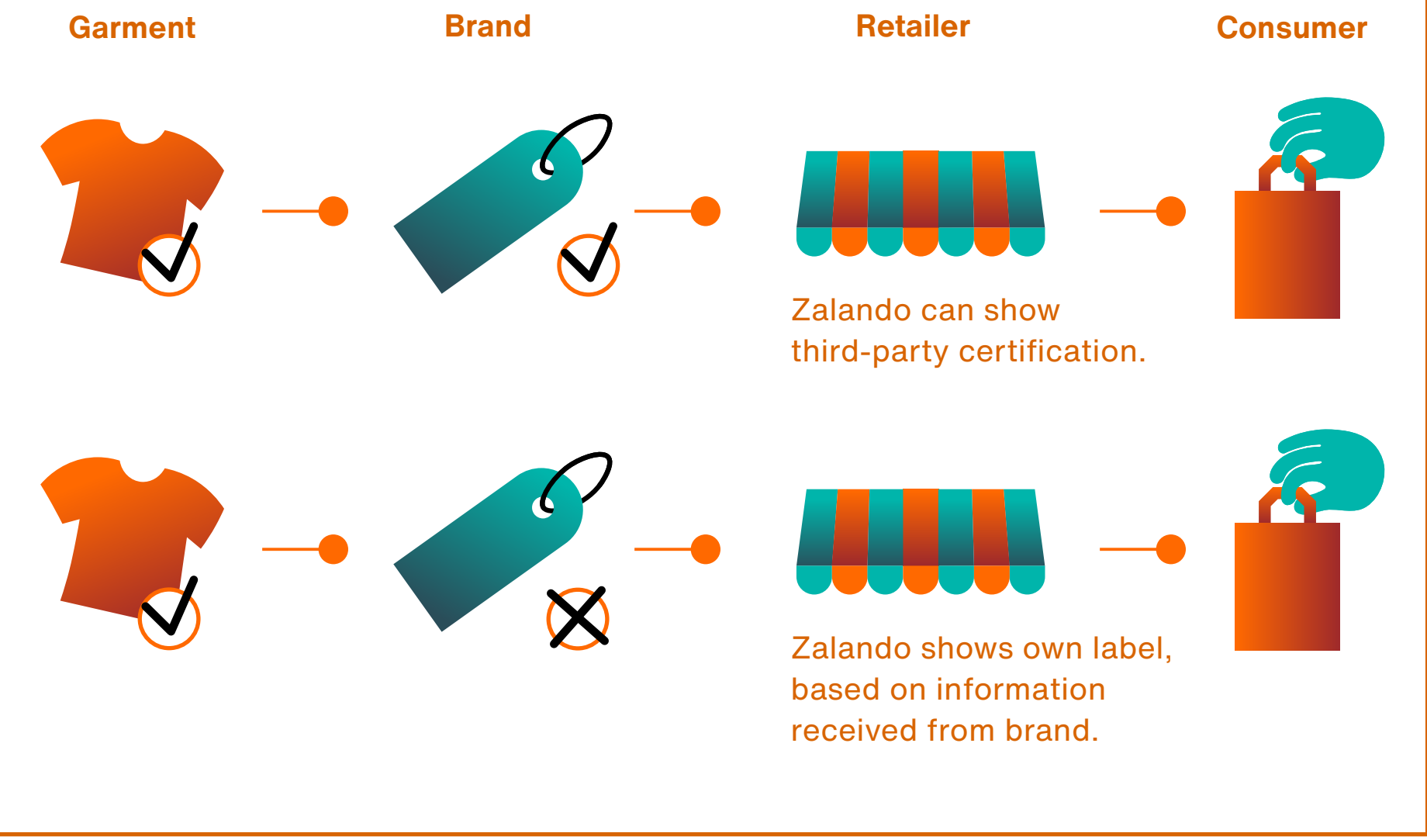
mum from 20% to 30%, to be rolled out in 2021. A full list of criteria and certification providers is published on our website.

In 2020, we improved our data collection and verification processes to help our brand partners provide, and if necessary correct, product-specific sustainability information more easily and digitally. We also improved our due diligence processes, introducing a weekly verification of sustainability claims across the entire assortment.

The Challenges Around Third-Party Certifications

We work to ensure that all the sustainability claims we make online are accurate, based on the information we receive from our brand partners and our own verification processes. With the exception of new material innovations (such as leather alternatives made from pineapple fiber) or brands' proprietary processes, such as turning ocean plastic into new material, the majority of our sustainability criteria are based on third-party certifications and standards to ensure traceability throughout the supply chain.

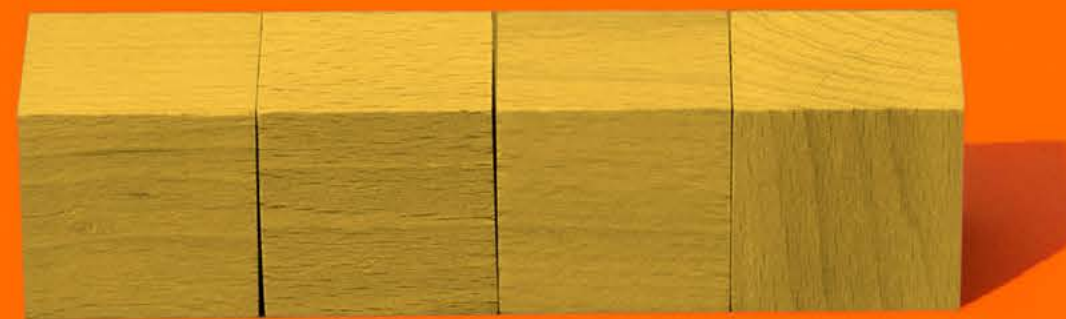
Many of our brand partners use certified materials such as organic cotton or recycled polyester in their products. However, certification labelling rules prevent Zalando from displaying third-party labels unless the brand itself carries the same certification. Very few do this, and smaller brand partners in particular struggle with the high costs and time required to obtain certification. To help our partners bridge this gap and provide customers with trusted information, we have developed our own logos, through which customers can identify the use of organic, recycled, or lower-impact materials in partner products.





Private Label Material Shares/Weight

Shoes & Hard Accessories



20.3%

● Leather

LWG Leather
50.2%
Leather
Alternatives
0.01%

Goal:
100% by 2023¹⁸

Apparel & Soft Accessories

11.9%
713 MT

● Man-made
Cellulosic Fibers

Responsibly
Sourced Viscose
73.9% 526.9 MT
Generic Lyocell
0.3% 2.3 MT

Goal:
100% by 2023¹⁹

16.3%
997 MT

● Polyester

Recycled Polyester
16.3% 163 MT
Goal:
50% by 2023

62.5%
3,759 MT

● Cotton

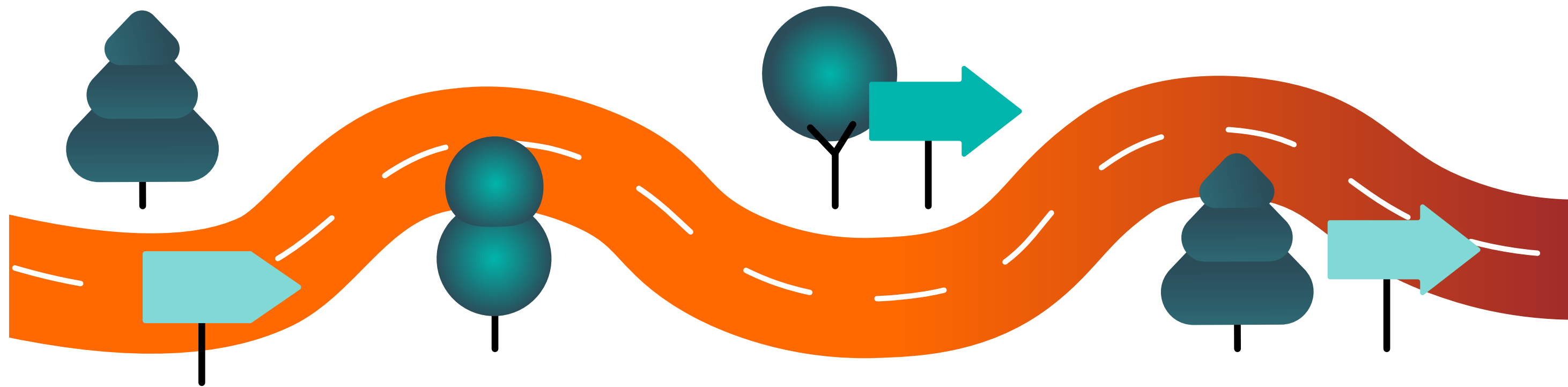
Better Cotton
54.2% 2,037 MT
Organic Cotton
16.2% 609 MT

Goal:
100% by 2023²⁰

¹⁸ More sustainable leather includes more sustainable tanning processes such as Leather Working Group rated tanneries and innovative leather alternatives such as Pinatex

¹⁹ More sustainable man-made cellulose includes responsibly-sourced viscose from traceable and non-traceable, e.g. LENZING™ VISCOSE™ and LENZING™ TENCEL™, and lyocell.

²⁰ More sustainable cotton includes Better Cotton, organic cotton and recycled cotton.



Our Roadmap

In 2021, we intend to ramp up our product initiatives in four key areas:

- **Increasing our standards:** We are updating our sourcing policies so that we can move toward a fair, sustainable, and circular operating model. As part of our annual updates, we are increasing our requirements for more sustainable products, continuing to strengthen our verification processes for checking brand claims, and highlighting new innovations such as regenerative organic agriculture.
- **Lifting our ambition:** While we continue to raise the bar and increase our standards, we see interest from both brands and consumers in more sustainable products grow substantially faster than anticipated. We believe we can challenge ourselves, and our partners, to go further, which

is why we have raised our target for our more sustainable assortment to 25% of GMV in 2023, from 20% previously.

- **Making sustainability simple:** We are redefining the way we talk to customers about sustainability — engaging with them on an emotional level and breaking down the concept into easy-to-understand topics. We are also working with the Sustainable Apparel Coalition and the [Higg Index suite of tools](#) to develop a standardized sustainability rating for products, which we aim to launch in 2021.
- **Improving the sustainability of our private labels:** By the end of 2021, our aim is for 70% of our private label products to fulfill our sustainability criteria and carry the sustainability flag, compared with 50% at present. In partnership with the [Ellen MacArthur Foundation](#) and circular design experts, we will also scale circular design and manufacturing in our collections.

Developing an Industry-Wide Standard for Sustainability Ratings

Our customers tell us that sustainability can be complex to understand. At the same time, governments are taking action to tackle the growing issue of misleading sustainability claims. For these reasons, we support the drive toward a single aligned standard for the measurement and communication of sustainability claims in the fashion industry and aim to offer them information about the sustainability performance of products that is simple, credible, and comparable. To lead this change, we have collaborated with the Sustainable Apparel Coalition (SAC), based on the Higg Index, starting with the environmental impact of materials used in the product.

- **The drive for transparency:** 34% of our customers believe that sustainability has become more important since the start of the COVID-19 pandemic, and 38% believe brand transparency has become more important.
- **Keep it simple:** Customers need a simplified ranking to enable sustainable choices at a glance, as well as more detailed information on sustainability impact areas.
- **Context, not quantity:** Transparency on sustainability factors is valuable to customers, as long as it's clearly explained and contextualized.

In the summer of 2020, we worked with the SAC and key brand partners including H&M and Tommy Hilfiger to develop simple, comparable, and customer-friendly designs based on trusted sustainability data from the Higg Index. Starting with information about the environmental impact of materials, we tested the designs with our customers. The results were positive: 91% of the 10,000 survey respondents correctly identified the more sustainable option, and 78% trusted the information they saw. We used these insights to continue to improve our designs, and aim to launch the first version of an aligned standardized sustainability rating for products by the end of 2021.



apparelcoalition.org



Leading by Example With Our Private Labels

“My personal challenge is always to be one step ahead. It’s good to stretch yourself a bit to get to next level, and I have the freedom in our branded business to make decisions that will make a real difference.”

Francesca Stenschke
Lead Textile Buyer, Zalando

Francesca Stenschke is Lead Textile Buyer for Zalando women private label and plays a key role in creating many of the items customers see on the platform today. She has seen sustainability become increasingly important in her activities over the past year, and has worked on making ZIGN Zalando's flagship sustainability label.

“Sustainability has become such a huge part of everything we do,” she says. “I work with multiple stakeholders across the business, each of whom brings some element to the table – from sourcing of raw materials, to design, and production.”

Within ZIGN and other private labels, one of Francesca's most important areas of focus has been Zalando's move from Better Cotton to organic cotton for some women's collections.

“Last year we decided to go entirely to organic cotton for our jersey collections, and it will be used for our Spring and Summer 2021 jersey collections,” she says. “In addition, in our ZIGN range, we have strict requirements on recycled polyester and knitted fibers, and are increasing our use of natural dyes.”



Zalando has clear requirements for what it considers more sustainable – essential to be included in the ZIGN range. These for example, relate to the minimum content for more sustainable fibers in a product, and the ethical standards at the factories producing the products.

“Sustainability has become such a huge part of everything we do.”



Francesca works closely with Zalando’s suppliers to negotiate everything from prices, to lead times and fabrics, always striving to facilitate transparent and balanced channels of communication. Zalando suppliers, mainly based in Bangladesh and China, are required to enroll in the Higg Facility Environmental Module and share their assessments with the company, if they produce more sustainable products.

Francesca’s aim is to not only to meet the company’s targets but to exceed them.

“My personal challenge is always to be one step ahead,” she says. “It’s good to stretch yourself a bit to get to the next level, and I have the opportunity in our private label business to make decisions that will have a real impact.”

In the coming year, Francesca and the many teams in private labels plan to continue scaling up the volume of organic cotton and other more sustainable fibers. She also wants to ensure Zalando’s internal processes are as efficient as possible, so that there is minimum wastage.

“I try to work out how we can organize processes and be more innovative, taking on board the views of my colleagues and other stakeholders.”

“I try to work out how we can organize processes and be more innovative, taking on board the views of my colleagues and other stakeholders.”

Zalando Private Labels last year collaborated with Fashion for Good and circular.fashion to introduce the “redeZIGN for Circularity” collection. The collection features a QR code to provide customers with additional product transparency, including information on trade-in and recycling options. “The women’s team produced three styles and the men’s team two,” Francesca says. “This kind of initiative helps people think about recycling, where we are at the start of an exciting journey.”

Extending the Life of Fashion



The Challenge

Getting to fully circular business models will require strategic and operational transformation among industry participants, and a leap of faith among consumers. This would comprise a system in which clothes, textiles, and fibers are kept at their highest value during use, and re-enter the economy afterwards, never ending up as waste.²¹ Indeed, since 2002, global clothing production has more than doubled. The average consumer buys 60% more and each garment is kept for half as long.²² Just 1% of clothing is recycled back into clothing and 73% goes to landfill.²³ Customers, meanwhile, generally do not have easy access to product care and repair information, or services that can maximize an item's lifespan. Circularity, therefore, presents one of the most significant challenges we will face over the coming decade. However, for companies that get it right, there is also an opportunity. By moving to a circular system, adopting new business models and collaborating, the industry can unlock \$560 billion of economic value, according to the Ellen MacArthur Foundation.²⁴

²¹ Definition: Ellen MacArthur Foundation

²² Ellen MacArthur Foundation, "A New Textiles Economy: Redesigning Fashion's Future," Ellen MacArthur Foundation, 2017.

²³ Accenture, Fashion for Good: "The Future of Circular Fashion", 2019.

²⁴ Fashion and the Circular Economy, Ellen MacArthur Foundation, 2017

Our Commitment

By 2023, we apply the principles of circularity and extend the life of at least 50 million fashion products.

Our Progress

- In 2020, we extended the life of more than 340,000 fashion products.
- We have developed our first circularity strategy as a first step toward achieving our goal.

In 2020, we launched our Pre-owned category in our Fashion Stores in Germany, Spain, Belgium, France, the Netherlands and Poland. Customers can trade-in or buy pre-owned items, all of which are quality checked and curated by Zalando. If they trade in used items, customers can choose to either receive a Zalando gift card or support one of two donation partners: the Red Cross and WeForest. For items that do not fulfill the eligibility criteria, customers can choose either to have them returned to them or donated to charity. We are working hard to scale Pre-owned to even more customers this year.

In October, we teamed up with sustainable fashion innovation platform Fashion for Good and Berlin-based start-up circular.fashion to develop the "redeZIGN for Circularity" capsule collection for our private label ZIGN. Each item in the collection is

designed to be recyclable, and is sold in all 17 Zalando markets. The products contain QR codes, or “circularity.IDs®”. These lead to product sites containing details of the manufacturer, materials and trims, as well as expanded care instructions and end-of-use opportunities, including trade-in and recycling. The commercial performance of the pilot has been equal to or better than comparable styles, with one of the five products performing so strongly that a new colorway is being released. More than 50% of the accompanying QR codes (in sold products) have been scanned by customers, with visitors exploring the page on average twice for 2.5 minutes and spending the most time on tabs relating to materials, care, and production.

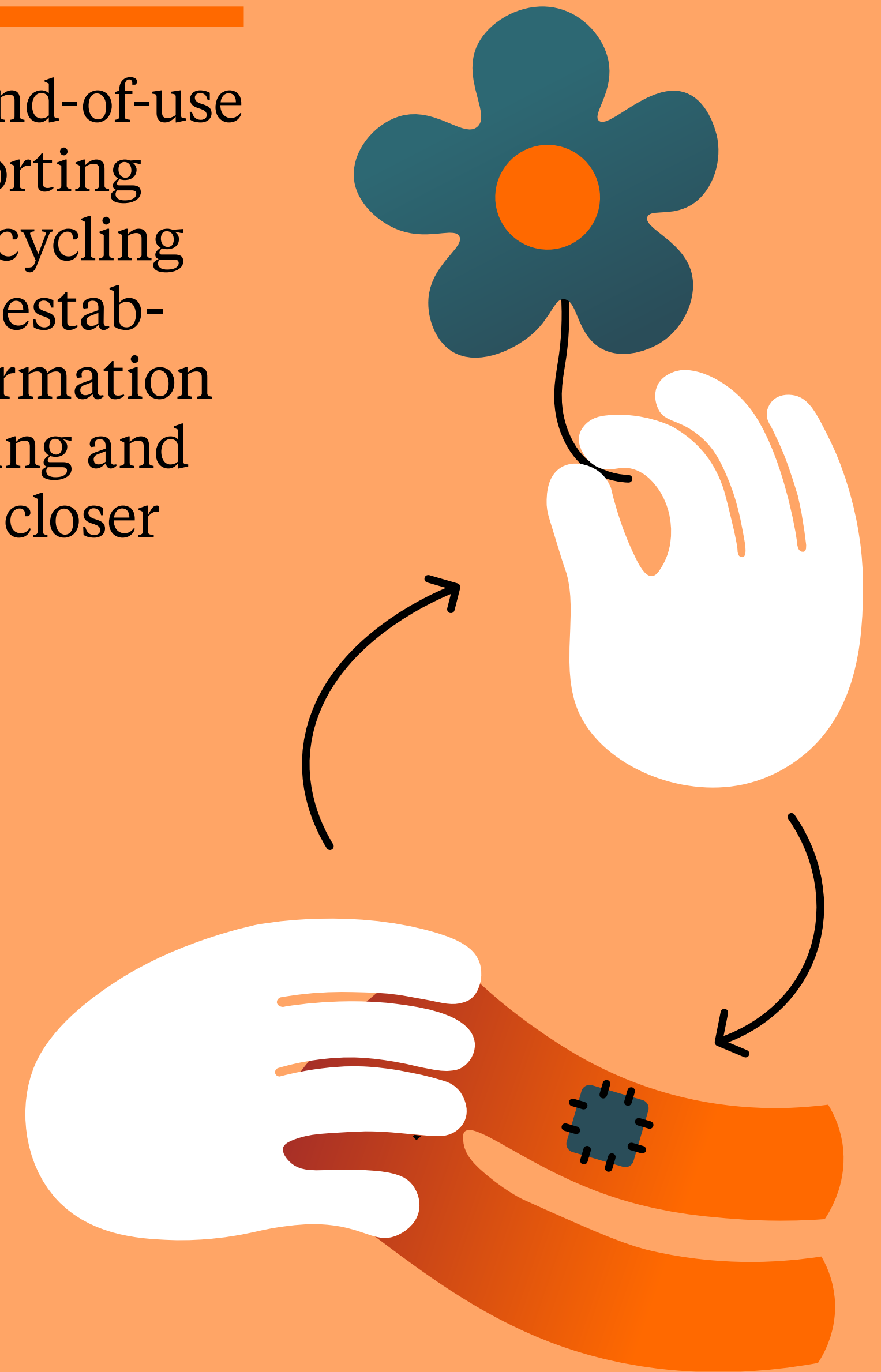
Roadmap

Looking forward, we want to integrate the principles of circularity into our business. We aim to work with our customers and partners to extend the life of products, ensuring the highest possible value during use and reentering the economy afterwards. Leveraging our unique positioning as a platform, we plan to enable our customers to access circular products and services and drive behavior change towards circular products and experiences. These efforts are in line with the forthcoming EU strategy for sustainable textiles, which seeks to help the EU shift to a climate-neutral, circular economy. Our mission is to become the starting point for our partners to test and scale circular services and solutions, helping change the way in which products are designed and manufactured.

“Innovation that helps to inform end-of-use decision making and facilitates sorting towards either re-commerce or recycling is a key enabler for circularity. By establishing a transparent flow of information between brands, consumers, sorting and recycling facilities, we take a step closer to achieving that goal.”

Katrin Ley
Managing Director, Fashion for Good

To extend the life of products, as per our 2023 commitment, we will implement our initiatives across four key dimensions: 1) Design and manufacture, 2) Use, 3) Reuse, and 4) Closing the loop. It is vital that we address circularity holistically and develop credible solutions. More specifically, we see our platform model supporting circularity through the opportunity it provides for us to collaborate with our brand partners, as well as adapt our private labels in design and manufacturing. We are also able, through our platform, to reach more than 38 million customers. Finally, we can use our intermediary role to close the loop and build a bridge from our customers to recycling infrastructure.

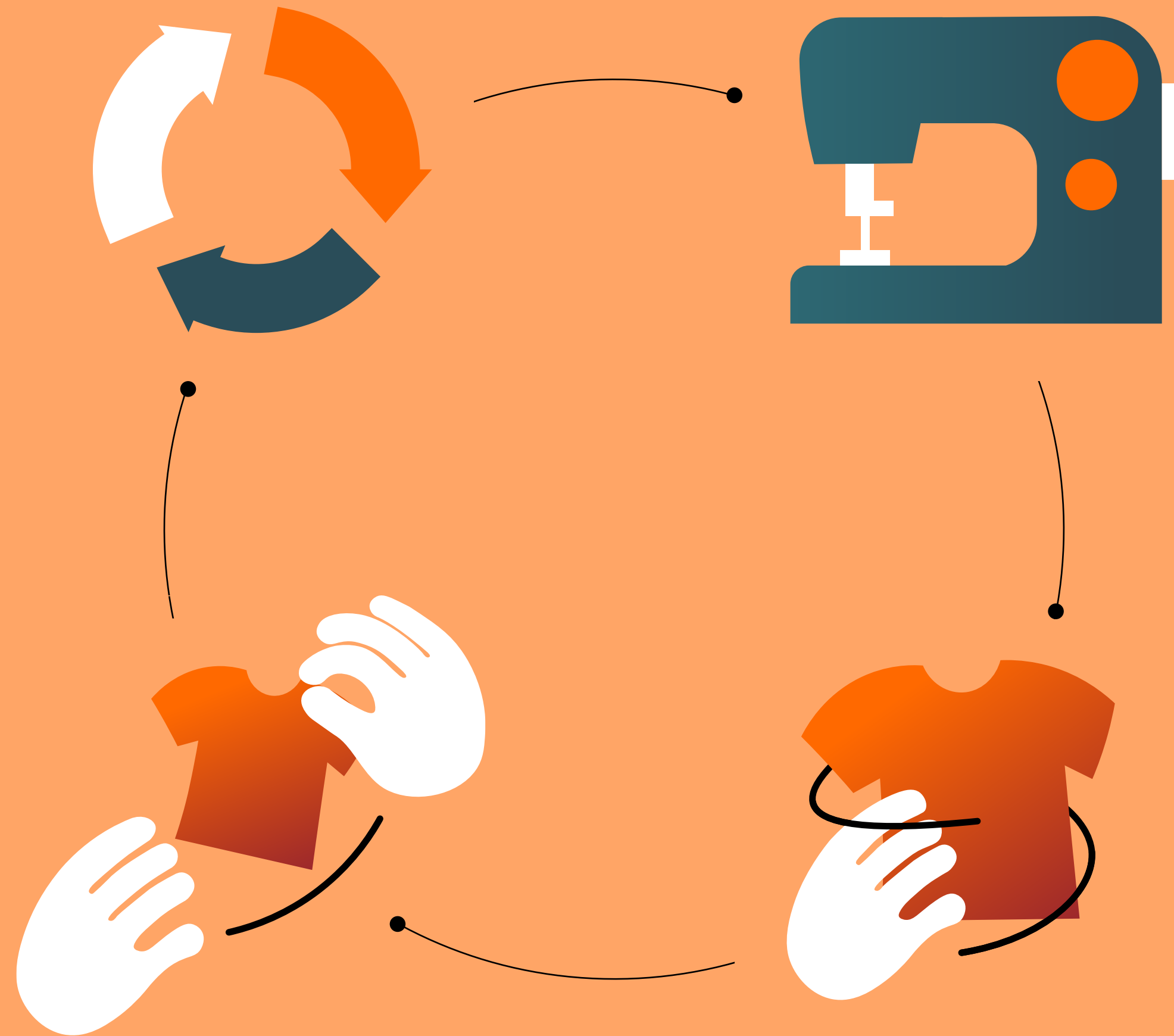




A Simplified Circularity Flow

04 Closing the Loop

Products are collected or traded in (for example, through Zircle). We plan to explore partnerships with recycling innovators to accelerate the technology to turn old products into new.



01 Design and Manufacture

Products are designed for circularity, to last longer and consisting of safe and recycled/renewable inputs, or remade from recycled materials. We will build on learnings from the “RedeZIGN for Circularity” pilot and our partnership with Ellen MacArthur Foundation to set circularity criteria for products and include these in our sustainability flag framework.

02 Use

Products are used and maintained for as long as possible within their original intended purpose, usually with the same owner (through restyling, care, or repair). We plan to introduce a range of digital products and offline services to help customers extend the life of their wardrobes through trusted, engaging multimedia content and easy-to-access local repair options.

03 Reuse

Products may be transferred to a new owner or reused in a different context to their original intended purpose (through resale, sharing, rental). We will build on the success of the launch of the Pre-owned category and continue to scale Zircle by expanding the reach and visibility of pre-owned services.

People





Raising the Bar on Ethical Standards



The Challenge

It is widely acknowledged that the fashion industry's record on human rights, including labor rights and ethical standards, is not good enough. Moreover, the industry's remediation actions often do not live up to expectations. Typical challenges relate to health and safety, poor working conditions, low pay, gender-based violence, and repression of unions and freedom of association.²⁵

As a leading e-commerce player, delivering to customers in 17 countries, and working with more than 6,000 partners and over 3,500 brands, we have a critical role to play in holding ourselves and our partners accountable to the highest ethical standards. Our responsibility as a platform is also relevant: We can, and should, ask more of our partners, just as they ask more of their supply chains.

Our Commitment

By 2023, we have continuously increased our ethical standards and only work with partners who align with them.

²⁵ Employment, wages and working conditions in Asia's Garment sector: Finding new drivers of competitiveness. International Labour Organization, 2015

Our Progress

How are we tackling human rights in our own business? In 2020, we conducted a detailed gap assessment. Working with a human rights risk consultancy, we analyzed all of our internal operations and the way in which we collaborate and do business with our external partners. Based on the UN Guiding Principles on Business and Human Rights, we identified gaps and developed a three-year roadmap to raise the bar. Underpinning these efforts are our ethical standards, contained in the Zalando Code of Conduct as well as additional standards where applicable, including our Ethical Sourcing Standards and Social Standards.

In our business relationships we aim to be collaborative and improvement driven. When we identify an issue, we communicate with our partners and work together to address the issue at hand. In cases where partners are not willing to engage in remediation, or refuse to acknowledge the issues, we consider pausing and will eventually end the business relationship. In 2020, seven partners were responsible for ethical standards violations. Two relationships were paused and then reinstated after satisfactory remediation. The other five partners were offboarded.



The Human Rights Due Diligence Cycle

The human rights due diligence cycle is the foundation of our work regarding human rights and ethical standards. This framework allows us to identify and act upon real and potential human rights risks for workers in our operations, supply chains, and the services we use. The framework is based on various standards, including the [Corporate Human Rights Benchmark](#) and [OECD Due Diligence Guidance](#). Since the launch of our do.MORE sustainability strategy, we have accelerated integration of this due diligence process into our operations.

- 01 Policies.** Partners are required to agree to Zalando ethical standards. These include our Code of Conduct, and, depending on the business, our Ethical Sourcing Standards and Social Standards.
- 02 Onboarding.** We pre-screen our partners and communicate our ethical standards to them during the onboarding process. Across the business, we will begin to integrate parameters around ethical standards into the screening process and reject partners who are not able to comply.
- 03 Risk assessment.** After onboarding, partner risk profile is defined based specifically on location of production and industry (e.g. commodity group or type of business model). The risk profile determines the type of monitoring we will undertake.



- 04 Monitoring.** Based on the risk analysis, partners are continuously monitored, with processes dependent on the business type. These include third party audits against standards such as SMETA (Sedex Members Ethical Trade Audit) and BSCI (Business Social Compliance Initiative) in our private labels, the Higg Brand & Retail Module for third party brand partners, and third-party audits against the Zalando Social Standards for many of our logistics providers.
- 05 Partner review.** Regular partner reviews are conducted and remediation strategies put in place where necessary.
- 06 Offboarding.** In cases where partners fail to demonstrate progress within agreed time frames, or are implicated in zero tolerance issues with no sign of remediation, we will pause and eventually end the business relationship.



The Human Rights Due Diligence Cycle

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Moving the Industry Forward

Our customers increasingly demand more information about the products they buy, as well as the brands that produce these products. We see value in collaborating with other industry leaders to scale a global standard around measurement of brand performance, both in supply chains and at corporate levels. Our strategic partner, the Sustainable Apparel Coalition (SAC), has led the industry to develop the Higg Brand & Retail Module (BRM). This helps businesses manage, measure, and share their sustainability progress with value chain partners, consumers, investors, and other key stakeholders.

In May 2020, Zalando became the first platform to use the BRM tool as the basis for a mandatory brand assessment. Zalando, its own brands, and all brands selling on the platform are required to report against social and environmental standards. The output of the assessment is a sustainability management score, showing where brands concentrate their sustainability efforts. In 2020, we collected data from 250 brands, showing that brands are performing generally better in social and human rights than the environment. The data also indicates big differences in perceived risks among brands.

As the Higg BRM is a self-assessment, we have supported the, SAC's development of a verification approach. We strive to be able to tell our customers what brands are doing both in their operations and supply chains when it comes to social and environmental sustainability. We also support the introduction of more responsibility for supply chains and the development of an EU-wide solution.

Forging Deeper Relationships Through Better Monitoring

Private label suppliers. We believe that greater transparency is an important factor in driving change, and enabling companies and consumers to make informed choices. We have published all of our Tier 1 suppliers and factories, which must provide us with social audits on an annual basis. These are evaluated according to our internal non-compliance matrix, based on our Code of Conduct, local legal requirements, and industry standards including SMETA and BSCI (Sedex Members Ethical Trade Audit and Business Social Compliance Initiative). In 2020, we evaluated 229 audit reports for new and existing factories and declined to onboard 5 factories or suppliers due to non-compliance. Findings of non-compliance are classified as minor, major, or critical (zero-tolerance), from which the factory is issued an overall rating and, if necessary, a corrective action plan (CAP). If a critical non-compliance issue is found, the factory must remediate the issue and provide a new audit within seven months. To help us track and reduce the negative environmental impacts of our supply chain activities, including GHG emissions, water use and waste, we require factories to complete the Higg Index's Facility Environmental Module and share their results with us. In 2020, 166 factories representing 90% of our production volume did so.

16
Private label sourcing countries

126
Private label suppliers

195
Private label sourcing factories

229
audit reports evaluated for new and existing factories

Logistics. We have set out our expectations for our fulfillment centers and those operated by our partners. These Social Standards are based on our Code of Conduct as well as additional relevant local regulations, covering key topics such as equal opportunities, remuneration, working hours and freedom of association. The approach is in line with the due diligence cycle outlined in this report and is integrated across the business. All warehouses – both Zalando's and third-party sites – are audited twice a year by our external auditing partner against our Social Standards. If the audits reveal findings that are non-compliant, our operations teams work with the respective sites to implement appropriate measures. This audit approach is also in place on an annual basis for our customer support teams and will be further expanded to other partners.



apparelcoalition.org



“Zalando’s decision to require its partner brands to use the Higg BRM will serve as a catalyst for bringing the industry together towards a standard system for sustainability measurement. This is how we can implement and achieve lasting change.”

Amina Razvi
Executive Director, SAC

Our Roadmap

Our top priorities when it comes to human rights in 2021 are:

- Develop more appropriate and robust processes to address human rights topics across the business, including conducting in-depth risk assessments in all areas of operations, and scaling risk-based monitoring programs, as already implemented for private labels.
- Overhaul our Code of Conduct and Ethical Sourcing Standards, strengthening our partner policies.
- Increase minimum requirements for brands in the onboarding process, and define and implement a more explicit and consistent offboarding process for partners that do not comply.
- Further embed and continue to strengthen the integration of the human rights due diligence cycle in all areas of our operations.

COVID-19: A Tumultuous Year

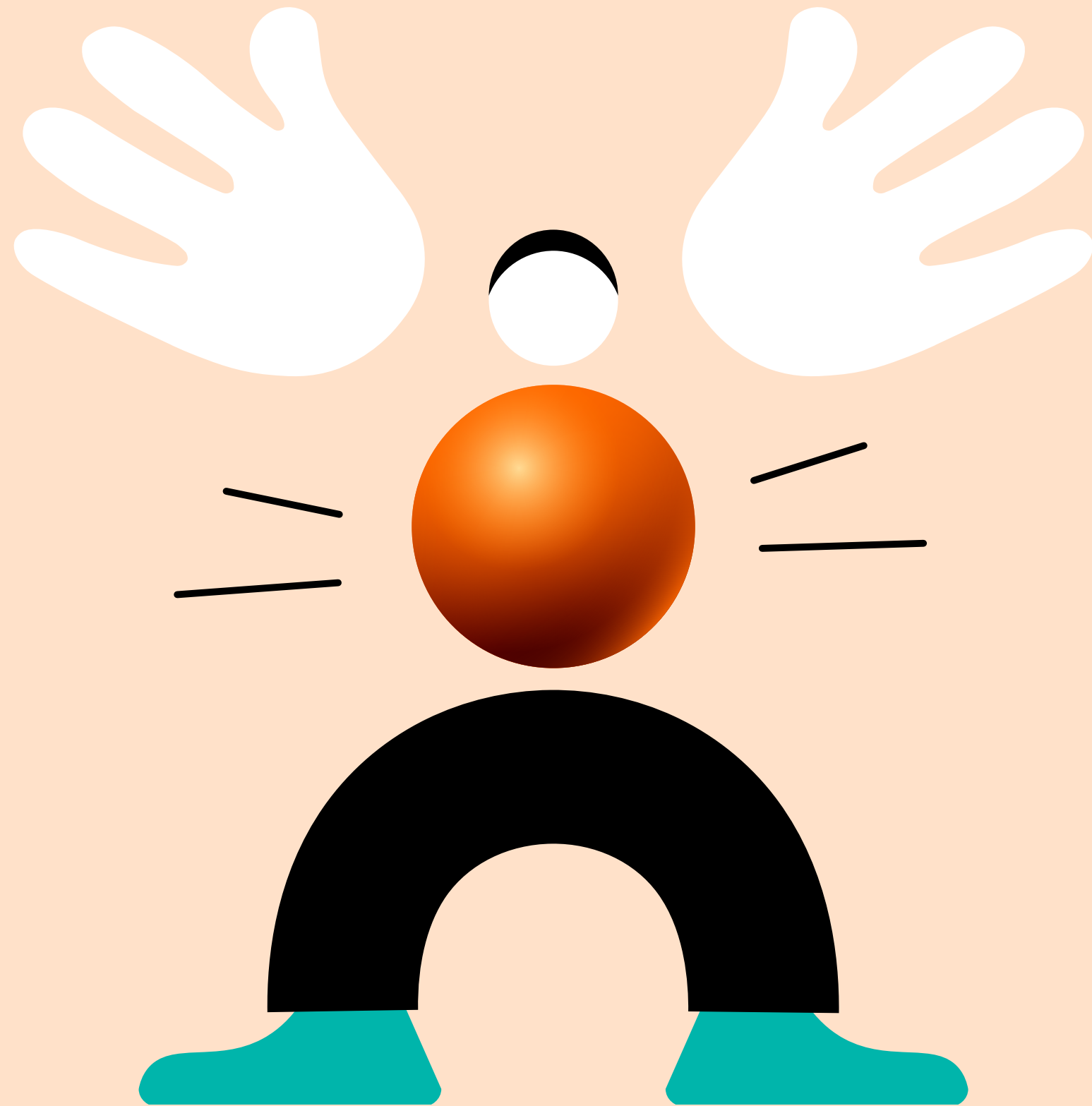
Many of our factories and their operations have been impacted by the Coronavirus pandemic and its related lockdowns and disruptions and we understand that many suppliers in the industry were severely hit by order cancellations. We are a member of ACT (Action, Collaboration, Transformation), the multi-stakeholder organization working toward advancing living wages through collective bargaining at industry level. As a member, we have adhered to purchasing practice commitments, which include not cancelling any finished or in-process orders. We have continued to pay our suppliers under our general terms and any actions or order modifications are aligned with our respective suppliers.

To help our suppliers, we have also offered improved payment terms for factories in need. We have worked with production lead time buffers and extended deliveries, and will continue to be mindful of any delay that might be caused by the coronavirus outbreak. Furthermore, we have endorsed the International Labor Organization’s (ILO) Call to Action in support of developing a global garment industry response to COVID-19 supply chain impact. Through these commitments, we hope to play a useful role in building back the industry, especially in support of workers in producing countries.





Preparing Our Workforce for the Future



The Challenge

Whether in small steps or leaps, jobs change over time. Sometimes we initiate changes ourselves, while other times the world changes around us. Unpredictable events challenge our preconceptions, new industries emerge, and innovative ways of working disrupt the status quo. Automation is likely to play an increasingly important role. Nearly 14% of jobs in OECD countries are likely to be automated in future, while another 32% are at high risk of being automated, according to the OECD. In addition, the events of the past year have led to new work patterns and habits. Working from home has become the temporary new normal for many, and is likely to have an impact on ways of working going forward.

Our aim is to ensure that all of our colleagues are offered the chance to gain new skills, and pursue personal and professional growth. From logistics, to operations and IT, and all of the other activities that contribute to our success, we see opportunities to unlock new areas of expertise. We believe that acquiring and developing skills will become even more important in the years ahead. Therefore, our mission is to support our people as the world of work changes and enable them to develop a mindset of lifelong learning.

Our Commitment

By 2023, we have supported 10,000 people in the workforce by providing skilling opportunities that match future work requirements.

Our Progress

1,355
people received skilling training

In 2020, 1,355 people received skilling training, encompassing upskilling, reskilling and meta-skilling.

Upskilling means providing additional skills to perform a role where the requirements will change. Reskilling means acquiring new skills to transition from a role to a new future role in the same or different area. Meta-skilling is defined as enabling individuals to develop a new mindset, and embracing lifelong learning and other life skills.



Skills-Based Development

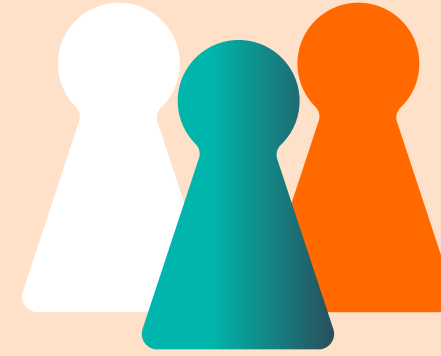
Over the past year, we developed a skills-based employee development plan based on three pillars:

- **Mega-trends.** Through our Zalando Training Platform and Tech Academy (focusing on technical skills such as applied science and engineering), we provide skilling opportunities aligned with future-of-work mega-trends that are relevant to our business. We identified 67 skilling courses in areas such as coding and software usage.
- **Changing roles.** We provide up-skilling and reskilling through specific learning interventions for changing roles, often accompanied by certification. We also piloted new externally-funded programs, such as a preparation program for a Security Guard certification.
- **Working with the supply chain.** We offer up-skilling and reskilling programs to address talent gaps in our private label supply chain, as well as the supply chains of our brand partners.

Roadmap

Over the coming year, we will expand our training offering to focus on the skills most relevant to our future direction. We will also pilot skilling programs within our supply chain. To ensure the actions we take have an impact on skills development and our colleague's prospects, we will improve our training evaluation methods.

The Mega-Trends That Matter Most to Zalando



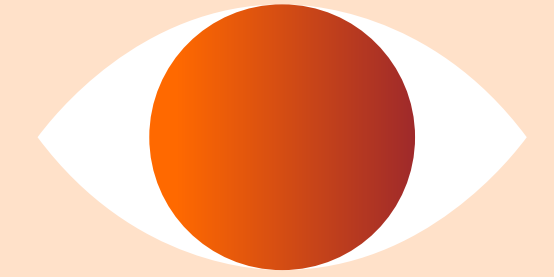
Working More Inclusively.

Diversity in the workplace is an asset that fosters innovation, creativity, and empathy. However, we cannot unlock the full potential of diversity without being more inclusive in the way we work. This will help us create a work environment in which all individuals are treated fairly and with respect, and have equal access to opportunities and resources.



Embrace New Technologies.

Software and hardware development means that nearly everyone must interact with technology to deliver aspects of our work. This has increased the need to develop skills to help choose, use, and maintain new technologies and tools. These skills include programming, data analysis, mechanical engineering, and many more.



The Need for Empathy.

We need to try to establish empathetic connections with our colleagues, which will enhance a sense of belonging and connection to the work environment. By creating a sense of mental well-being, driven by empathy and feelings of inclusion, we will also encourage individuals to take risks, knowing that people will understand that mistakes are part of the process.



New Environments.

Since the pandemic, and where roles and work patterns have allowed, working from home has increased exponentially, and people have become accustomed to new routines — such as virtual meetings conducted via video. To some extent, this is likely to become the “new normal”.



Innovation to the Fore.

As the speed of change continues to accelerate, we will need to be at the forefront of innovation. From the factory floor to the consumer's door, we will have opportunities to make things better through new processes and technologies.



The Need for Collaboration.

The work environment is now so complex and interconnected that collaboration and team-based projects and work structures dominate. We all need to be able to become productive and creative with new colleagues quickly. We must be experts in team dynamics.



From Shop Floor to Top Management

“One of the most significant benefits of working for Zalando is the training that is available.”

Kevin Velle
Department Manager, Zalando

When Kevin Velle first approached a Zalando recruitment officer at a job fair in 2017, he had little idea of the journey on which he was about to embark. However, recently returned from his honeymoon and ready to move on from his previous job (producing vinegar!), he was determined to make a change. Three years later he has embraced training to develop his skills and been promoted several times — most recently to Department Manager, leading a team of more than 250 people.

Kevin's journey started at a job fair in Marckolsheim, a commune in the Alsace region of France, near where he lived. Encouraged by his wife, he approached the Zalando representatives and asked whether his skills as a production manager may be useful in a fast-growing digital environment.

“I did not have much hope because my German language was only at a very basic level,” he says. “However, I told them that I had grown up in Belgium, able to speak French and Dutch, and that I was willing to work hard to learn German as quickly as possible.”

The Zalando representatives were impressed by Kevin's enthusiasm and offered him a job in the company's warehouse in Lahr, helping fulfil orders that came in through the website. The work went well, and just five months later Kevin's manager asked whether he would like to take on more responsibility, working as a problem solver in logistics.

“I loved that job,” says Kevin. “There is a lot of satisfaction to be gained from solving daily problems and helping operations run smoothly.”

As the Zalando business continued to expand, Kevin's responsibilities grew and the logistical challenges he faced became more complex. Before long, he was asked whether he was interested in becoming a team leader.

“I said I didn't know if I had the language skills, as I knew I would need to provide feedback to other employees,” he says. “I said I would need to improve my German.”

Facilitated by Zalando, Kevin attended language classes before and after his shifts. He also worked at home, using a language app on his phone to practice. After three months, he felt he had achieved the necessary level to take on the new role. A year of hard work followed, in which Kevin collaborated closely with his colleagues and got to know the operational side of the business better.



“I said I didn't know if I had the language skills, as I knew I would need to provide feedback to other employees. I said I would need to improve my German.”



“The skills I learned gave me the confidence and the technical knowledge that I needed.”

“At the beginning of 2019, the business was growing fast. The warehouse was getting bigger and more employees were joining, which of course also led to more logistical challenges. We were seeing high numbers of ‘clarification cases’ that need to be resolved. Around that time, my boss asked whether I would like to become a team leader for problem solving – which was a step up for me and a significant challenge given the expansion of the business.”

To prepare for the new role, Kevin visited a new Zalando facility in Mönchengladbach, spending a week training

alongside his colleagues and learning the ropes. “The skills I learned gave me the confidence and the technical knowledge that I needed.”

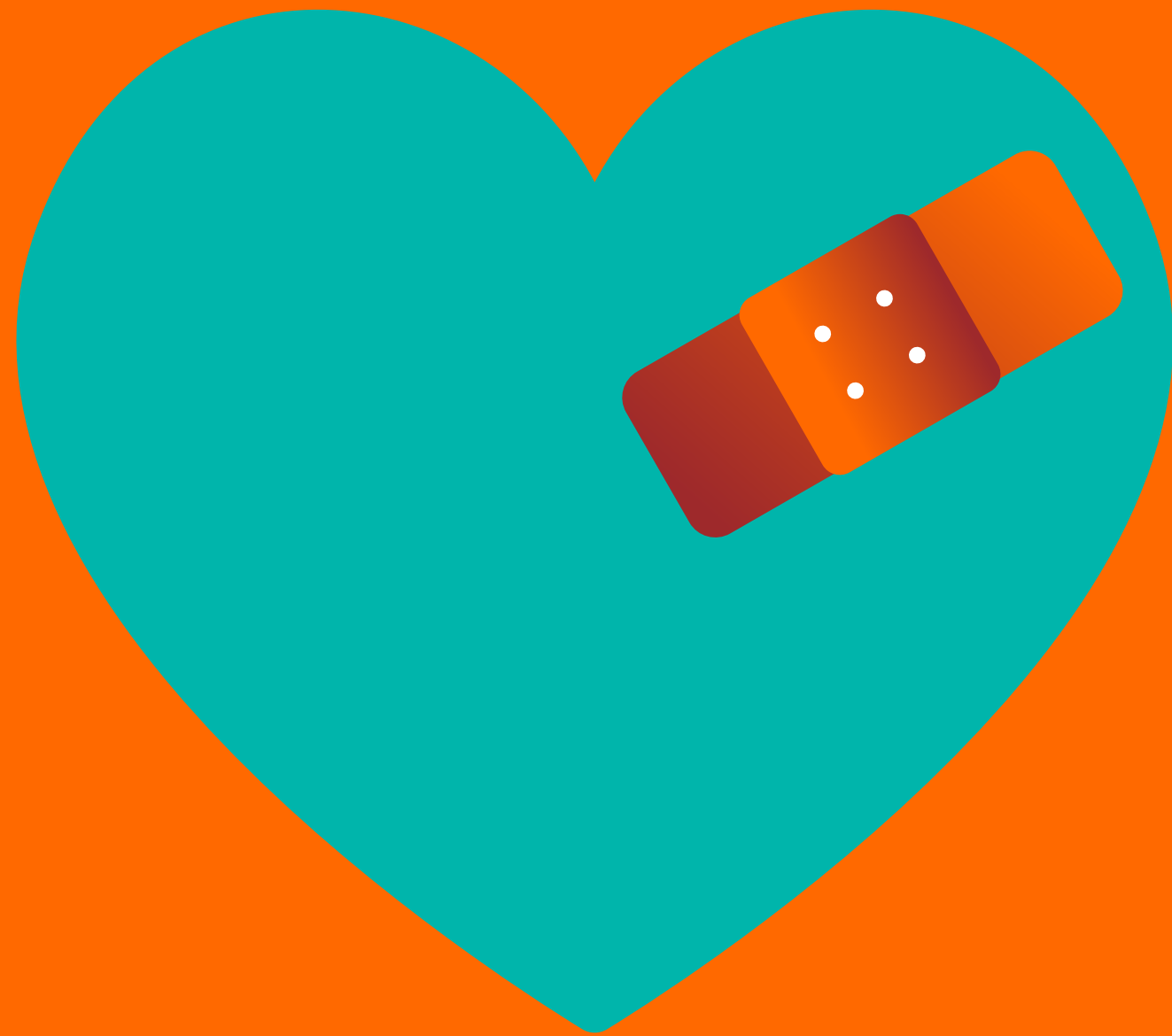
Some months later, he approached his manager and asked whether he could take on even more responsibility. “She told me that there was nothing more under my current position, but I could try to get a promotion to Department Manager.” To take the next step, Kevin was required to study hard, not only to improve his language skills but also to develop his leadership skills and understand an expanding number of technical requirements. He took on new training modules and exams, adding to the skills he had learned on the job.

“It was tough, but I had given myself a goal and I wanted to achieve it,” Kevin said. “I knew that I was taking a risk, and that there was a chance of failure, but the lesson for me was that if you are serious about training and work hard you can get to where you want to be.”

Kevin’s experience at Zalando has taught him that employees can fulfill their potential through skills development.

“One of the most significant benefits of working for Zalando is the training that is available,” he says. “You can find courses to suit you, and then just go ahead and book them. At one point I was doing two or three hours training a day. It was hard, but it enabled me to get to where I am now and I hope it will also benefit Zalando as I have gained the skills that the company will need in the future.”

Ensuring the Health and Safety of Employees



The health and safety of our employees is our highest priority. Through our health and safety teams, we have established central resources of knowledge, competence and governance. We hold ourselves to high standards in all our locations, both in emergency situations and day-to-day business.

In 2020, the absentee rate across the Zalando Group was 7.3% while in Zalando Logistics it was 11.7%.

In July 2020, we initiated a new partnership to offer an Employee Assistance Program (EAP). This provides unlimited psychosocial consultations for any physical or mental health, work-related, personal or practical problems. Family members and those sharing a home with employees can also access the service. EAP has a high usage rate and has received positive feedback. Our internal Employee Assistance Service (EAS) continues to offer consultations for employees who prefer not to use an external service, or for when internal knowledge of company policies and procedures is a benefit.

We conduct corporate health assessments (CHAs, German: “Gefährdungsbeurteilung psychischer Belastungen”; in line with the Occupational Health and Safety Act, §5 and §6) in various units. In 2020, we expanded this to our Customer Care Central Europe department and developed training to support employees to better manage their stress and maintain good back and eye health, as well as training for leads in supporting the wellbeing of their direct reports,

ensuring compliance with General Data Protection Regulation (GDPR). This is now being scaled to other business units.

In addition, over the past two years we have invested in optimization of our framework for employees who have a higher absence rate. Our company integration management (“Betriebliches Eingliederungsmanagement”, BEM, according to SGB IX §167) takes a holistic approach, focusing on, a) the primary reason for the absence, and b) additional personal, family-based, psychological, or physiological challenges. This was especially important in the context of the COVID-19 pandemic. In 2020, we focused on digitization of BEM processes for remote offerings. Our hybrid approach, comprising external and internal BEM experts, has created more visibility, awareness, and acceptance. One key indicator for service quality is the acceptance rate of BEM information talks. This rose from around 12% in 2019 to around 30% in 2020. We are committed to raise the rate even further by making adaptations based on user feedback.

7.3%

Absentee rate in the Zalando group

11.7%

Absentee rate in Zalando Logistics

1.5m

Distance between work stations at all logistics locations

27K

COVID-19 tests were conducted at our German warehouses in 2020

All of our warehouses comply with international health and safety standards, and we commit to continuous improvement of performance and management systems. In 2020, we published Zalando Global Logistics Standards for Health and Safety, Fire Protection, Security and Environment. We evaluate the implementation of our policy and standards through self-assessments, which are supported with gap analyses and onsite or remote audits. Onsite teams have also initiated gap analyses of ISO 45001 (Health and safety at work) standards, with a view to attaining certifications.

The Impact of COVID-19

As a large proportion of employees began working from home in March 2020, we have navigated our offline health support and services to an online format. These include online resources and workshops to help people adapt to working remotely, and how to stay healthy and productive in challenging situations. We have continued to offer consultations with our external company doctor. In the past year, consultations were changed to remote formats wherever possible, to ensure continuous support of employees. We also offer a workplace wellbeing app and significant discounts for sports and exercise club memberships. In November, we hosted our first fully remote health day, focusing on mental health in the workplace, and covering topics such as how to identify, discuss and resolve mental health issues, how to address and manage stress, ways to increase resilience and mindfulness, and where to get help if needed.





Since the beginning of 2020, we have operated a dedicated information hub for COVID-19 and specific health and safety regulations, as well as dedicated contact points, and our own case management and contact tracing team. When a confirmed case is reported, for example through our coronavirus hotline, we act in coordination with the health authorities. Anyone who had close contact with the employee in question is instructed to quarantine at home. Relevant working areas are reopened only after extensive cleaning. Our cross-functional task-forces have developed communication channels to provide updates to the workforce.



In our logistics centers, production studios and some parts of our offices, employees still come to work every day. To ensure a safe working environment, we perform additional daily cleaning. Workplaces and surfaces are also disinfected between all breaks and shifts. We have installed disinfectant dispensers on all floors.

At all logistics locations, work stations have been repositioned to ensure at least 1.5 meters distance. Markers on the ground and additional security personnel remind every employee of distancing rules. Thermal cameras take the temperature of employees before they enter warehouses. Anyone with a higher body temperature is sent home on sick leave. Protective face masks are distributed as part of personal work clothing. Break times, break rooms, and locker rooms have been reformatted to ensure social distancing. The air exchange through our ventilation systems has been adjusted to further improve air quality. Finally, to facilitate hand washing, we have provided additional mobile hand wash basins. More than 27,000 COVID-19 tests were conducted at our German warehouses in 2020.

In the Zalando Studios, we have separated working areas and extended the distance between sets. We have cancelled rotations between sets. Face masks are provided and the minimum distance between people is maintained at all times. Cleaning and hygiene measures have been reinforced on site.

Becoming Part of the Solution

As one of the largest employers in Berlin, we strive to be a good corporate citizen and to play an active role in the communities close to our various locations. Especially during times of crisis, such as during the COVID-19 pandemic, we want to be a part of the solution. That is why we have donated a total of €5 million towards fighting the effects of the pandemic.

Together with our partner Ashoka, we have launched the Changemakers United program. The program aims to identify

5m

Euros donated by Zalando towards fighting the effects of the pandemic

and support 20 entrepreneurs in scaling their solutions to 35 countries worldwide, reaching more than 400 million people directly or indirectly. Examples of new ventures include an online education offering and a company that makes 3D-printing health care equipment.

To create a moment of joy for 37,000 underserved children and adolescents who were particularly affected by the first lockdown in 17 European countries, we sent them boxes containing Zalando products. Further, we donated the profits from the sale of textile masks between April and September 2020 to our partners humedica e.V., Ashoka, and several local German organizations that are working to address the impacts of the pandemic, for example in mental health support for adolescents. We also supported the Red Cross with funding for coronavirus response and local mental health support, for example supporting hotlines for vulnerable communities in eight of our markets.

Annex





Our Non-Financial Report 2020

The report presented below is our combined non-financial report for ZALANDO SE and the Zalando Group in accordance with Section 289b (1) and (3) in conjunction with Section 315b (1) and (3) HGB (German Commercial Code). All information, including relevant key performance indicators (KPIs), is provided separately for ZALANDO SE and the Zalando Group wherever possible. Due to the different approaches of the GRI Standards and the German implementation of the CSR Directive on Non-Financial Reporting (CSR-RUG) regarding materiality requirements, we have not applied any framework to our non-financial report 2020.

The selection of material topics for our non-financial report is based on the materiality analysis that we finalized in 2019. In order to identify the material topics for Zalando, we created a shortlist of 18 sustainability topics

Overview Non-Financial Report Zalando 2020

CSR-RUG required aspects	Topic reported	Reported in
Environment	Transportation and delivery	Planet: "Reducing our Carbon Footprint"
	Packaging and product waste	Planet: "Reimagine Packaging, Minimize Waste"
Human rights	Human rights	People: "Raising the Bar on Ethical Standards"
Employee matters	Employee development	People: "Preparing our workforce for the future"
Social matters	Community engagement	People: "Being part of the solution"
Anti-corruption	Anti-corruption	People: "Corporate Governance"
Additional	Sustainability assortment, incl. product design and product transparency	Products: "Defining Sustainable Fashion"
	Sustainability services	Products: "Extending the Life of Fashion"



categorized along three value chain stages (product manufacturing, operations, consumers) and validated and ranked through customer and employee surveys, as well as expert interviews. The shortlist was assessed in terms of the business relevance and impact — positive as well as negative — of our business model on the corresponding topics. Eight topics were identified as material in accordance with CSR-RUG. Relevant information on each of these topics is set out below.

Business Model

Zalando is a European online fashion and lifestyle platform connecting customers and brand partners. The Berlin-based company offers its customers a one-stop shopping experience with an extensive selection of lifestyle articles including shoes, apparel, accessories and beauty products, with free delivery and returns as well as diverse payment options wrapped into an inspirational and personalized digital customer experience. Zalando's assortment of more than 3,500 international brands ranges from popular global brands to fast-fashion and local brands and is complemented by private label products.

Zalando's main customer proposition, Zalando Fashion Store, is extended and enhanced by Zalando Lounge, which offers registered members special offers at reduced prices. The ten brick-and-mortar outlet stores in Berlin, Frankfurt, Cologne, Leipzig, Hamburg, Hannover, Münster, Stuttgart, Mannheim and Ulm opened between 2012 and 2020 serve as an additional sales channel for excess inventory for Zalando and its brand partners. As of September 2020 Zalando is expanding its spectrum of value for European customers further by adding a pre-owned category to its platform (starting with France, Germany, Netherlands, Poland and Spain). Zalando's localized offering addresses the distinct preferences of its customers in each of the 17 European markets it serves: Austria, Belgium, the Czech Republic, Denmark, Finland, France, Germany, Ireland, Italy, Luxembourg, the Netherlands, Norway, Poland, Spain, Sweden, Switzerland and

the United Kingdom. Its pan-European logistics network with eleven fulfillment centers allows Zalando to serve its customers throughout Europe.

Sustainability Strategy and Governance

The materiality analysis described above was further leveraged to prioritize our efforts within the do.MORE strategy. With the introduction of our sustainability strategy do.MORE in October 2019, we aimed for a meaningful transformation of our business in line with our new vision to be a sustainable fashion platform with a net-positive impact for people and the planet. We recognized the growing expectations from stakeholders, the necessity to future-proof our business and the obligation to be a part of the solution to global challenges. Our high ambitions that we set out in the do.MORE strategy in the form of six concrete goals affect the entire Zalando group:

Planet

- By 2025 we have achieved our science-based targets to reduce carbon emissions in line with the Paris Agreement, including an 80% reduction in emissions of our own operations compared to 2017.
- By 2023, we will design our packaging to minimize waste and keep materials in use, specifically eliminating single-use plastics.



Products

- By 2023, we generate 20% of our GMV (Gross Merchandise Volume) with more sustainable products. *Due to our progress we have decided to raise our target to 25% by 2023.*
- By 2023, we apply the principles of circularity and extend the life of at least 50 million fashion products.

People

- By 2023, we have continuously increased our ethical standards and only work with partners who align with them.
- By 2023, we have supported 10,000 people in the workforce by providing skilling opportunities that match future work requirements.

An important element to achieving our goals is a corresponding and clear governance structure that allows us to integrate sustainability into all business units. Each goal is managed in a workstream structure with an executive sponsor²⁶, as well as project management and expert support from the central Sustainability team. The sponsors, together with representatives from Sustainability, Corporate Communications, Finance, Demand, Digital Experience and Offprice teams meet every quarter in the Sustainability Forum, which is chaired by Co-CEO Rubin Ritter. As the highest decision-making body, the Sustainability Forum serves as the overarching steering committee and keeps the necessary strategic oversight.

Our Governance & Risk team identifies, assesses and monitors risks that might impact our business performance in a bi-annual risk cycle. The scope of the cycle also includes social and environmental risks. As part of the bi-annual risk cycle and in preparation for our non-financial report, the Sustainability and Governance & Risk teams jointly analyzed risks as well as potential negative impacts that emanate from our business and business relationships as well as from our products and services on the eight material topics identified. As a result, we currently do not consider any net risks assessed to have a high probability and high negative impact on the material topics. The reason for this conclusion is that potential negative impacts are managed by the corresponding teams with adequate due diligence processes and measures.

²⁶ In the order of the goals in this report: Head of Environment, VP Logistics, VP Category Women, SVP Corporate Development, VP Retail Operations and SVP People & Organization



Planet

Reducing Our Carbon Footprint

Climate change is the most pressing issue of our generation. According to the Intergovernmental Panel on Climate Change (IPCC), human-caused greenhouse gas (GHG) emissions are the leading contributor to rising global temperatures and other signs of climate change. To avoid the worst effects of climate change, the Paris Agreement calls for collective action across society to limit global temperature increases to between 1.5 and 2 degrees Celsius (°C). The implementation of actions to mitigate and avoid greenhouse gases along the entire value chain needs to be accelerated. Therefore, with the launch of our do.MORE strategy in October 2019, we committed to being carbon neutral in our own operations, deliveries and returns (by compensation) and also to set science-based targets²⁷ in 2020.

For our 2020 non-financial reporting, we extended our carbon inventory to include new CO₂ emission categories. We now monitor GHG emissions across our own operations (Scope 1 and 2) and our value chain (material Scope 3 categories). Our aim was to gain a better understanding of the impact of our value chain beyond the distribution of products, e.g. from the materials and assembly of products sold through our platform. Accordingly, in 2020 we set science-based targets, approved by the Science

Based Targets initiative, that cover our GHG emissions footprint and are aligned with the latest science and the ambition to limit global temperature increases to 1.5°C:

- Zalando commits to reduce Scope 1 and 2 greenhouse gas (GHG) emissions by 80% by 2025 against a 2017 base year. Zalando commits to increase annual sourcing of renewable electricity from 34% in 2017 to 100% by 2025.
- Zalando commits to reduce Scope 3 GHG emissions from private label products by 40% per million euros gross profit by 2025 from a 2018 base year. Zalando also commits that 90% of its suppliers by emissions covering purchased goods and services sold on its platform, packaging and last-mile-delivery partners will have science-based targets by 2025.

Compared to 2019, our total market-based greenhouse gas (GHG) emissions (Scope 1, 2 and 3) increased by 18% to 4,535,428 metric tons of carbon dioxide equivalent (t CO₂e).²⁸ This increase was driven by a 18% rise in our Scope 3 emissions. Our total location-based emissions were 4,602,574 metric tons — an 18% increase from 2019. A large majority of these emissions stem from the manufacturing of products that we sell across our business, which has seen strong growth over the past year.

Greenhouse Gas Emissions by Scope

In metric tons CO ₂ e	2020	2019
Scope 1	8,191	5,904
Scope 2 ²⁹	1,125	2,271
Scope 3 ³⁰	4,526,112	3,821,876
Total	4,535,428	3,830,051
Emissions neutralized by carbon offsets	257,360	47,720
Net carbon emissions	4,278,068	3,782,331

We reduced our market-based Scope 1 and 2 GHG emissions by 64% against a 2017 baseline year. A central part in achieving this reduction was the procurement of renewable electricity to reduce our energy related emissions. In 2020 we joined the RE100 initiative and achieved our target of supplying all our own operations with 100% renewable electricity by either sourcing renewable electricity or purchasing guarantees of origin.

²⁷ As defined and approved by the Science Based Targets initiative

²⁸ 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.

²⁹ The location-based value for Scope 2 in 2020 is 76,462t CO₂e

³⁰ Includes the following emission categories: purchased goods and services (Private Labels, Wholesale, Partner Program, Offprice, Zircle, packaging), purchased goods and services (non-product), capital goods, fuel and energy related activities, upstream transportation and distribution, waste generated in operations, business travel, employee commuting, downstream transportation and distribution, use of sold products, end-of-life treatment of sold products, investments



Because most of our emissions lie in product supply chains, we have committed to pursue substantial emissions reduction not only in our own operations but also across product supply chains, by leveraging our outreach both upstream and downstream. Scope 3 GHG emissions from private label products have reduced by 19% per million euros gross profit from a 2018 base year. While this was partly achieved by a reduction of the supply base in 2019, our gross profit growth has also substantially contributed to this development. In 2021, we will develop a decarbonisation strategy for our private label products which considers alternative materials and processes, as well as emission reductions in our supply chain.

We have committed to engage our biggest partners, including brands, packaging suppliers and last-mile delivery partners, to set their own SBTs by 2025, covering 90% of our emissions. Currently, partners covering 34% of our 2020 Scope 3 emissions have set science-based targets.

Since the launch of our do.MORE strategy in October 2019, we have been carbon neutral in our own operations (Scope 1 and 2) and in packaging and upstream transportation and distribution (deliveries and returns). To achieve this, in addition to our reduction measures described above, we procured offsets for 257,360t CO_{2e}. These are verified emission reductions (VERs) from Gold Standard certified reforestation projects in Ethiopia, Uganda, Panama, Colombia and a VCS certified project in

Indonesia. Furthermore, our customers continue to have the check-out option to contribute to these efforts with a per order fee of 25 ct including VAT.

Reimagine Packaging, Minimize Waste

Historically, e-commerce has been associated with take-make-waste packaging models, having a significant impact on the environment as it requires high natural resources consumption and results in large amounts of waste. At Zalando we consider packaging as one of the most strategic topics in the e-commerce landscape — with strong brand building potential as one of our main touchpoints to customers, as well as high innovation potential with regards to new materials and logistics processes. While packaging sustainability is a key strategic topic, we must also ensure that our products arrive with our customers safely and undamaged. Packaging has the core function of protecting packed products along our automated and manual processes for warehousing and transportation. To tackle these challenges we are focusing our efforts on applying the principles of circularity to the design of our packaging and have set ourselves the following goal with the launch of the do.MORE strategy: “By 2023, we will design our packaging to minimize waste and keep materials in use, specifically eliminating single-use plastics.”

In 2020, we used 7.8g of single-use plastic packaging per item shipped from Zalando Group³¹, and 5.9g of single-use plastic packaging per private label item produced.³² On our way to eliminating single-use plastics, we continue to reduce the amount of single-use plastic packaging used overall and introduce other materials with the principles of circularity in mind. In 2020, the Zalando Group used more than 53,000 metric tons of packaging materials, 87% of which stem from recycled input materials. In addition to Zalando shipping boxes and beauty bags made from 100% recycled paper and shipping bags made from 80% post-consumer recycled (PCR) plastic material, this year we increased the recycled content of polybags (thin protective sleeves around textiles) from 60% to over 90% recycled plastic. Moreover, in 2020 99% of our total packaging was recyclable.³³

To test the scalability of different solutions, we worked on several pilots in 2020. We started piloting reusable packaging in 2019, with 20,000 customers in the Nordics receiving Zalando orders in reusable shipping bags. In a next pilot phase that kicked off in September 2020, we applied our learnings to take a more customer-centric approach, through increased customer communication

³¹ Single-use plastic packaging is plastic packaging intended to be used only once before disposed of. In scope is all customer-facing single-use plastic packaging procured by Zalando Group as an online retailer (excl. private labels and items shipped by partners).

³² Single-use plastic packaging is plastic packaging intended to be used only once before disposed of. In scope is all customer-facing single-use plastic packaging procured by Zalando private labels (our own fashion brands).

³³ Recyclability refers to packaging material that is suitable for high-quality and mechanical recycling as per the German Packaging Act (VerpackG)



touchpoints and a focus on better understanding customer perceptions on reusable packaging use and returns.

We furthermore piloted the replacement of single-use plastics with recycled paper alternatives. More than 1 million orders were sent to customers in the Nordics in shipping bags made of paper rather than plastic. Paper tape for sealing boxes and paper void fill (used for stabilization and protection of products in shipping boxes) were also tested as alternatives to plastic tape and void fill. We also took the opportunity to pilot plastic-free packaging for all orders from our newly launched Pre-owned category being shipped in packaging made of paper and grass alternatives.

In 2020, we piloted the smaller folding of products in our Private Labels, thereby reducing the size of the plastic polybags needed to protect them during transportation and warehousing. We have successfully implemented this for some product types and are scaling this to further product categories.

Lastly, we are also implementing solutions for reducing packaging waste from our warehouse processes. For instance, our shipping labels were delivered to us attached to a siliconized roll for their adhesive purposes, which ended up as non-recyclable waste. This year Zalando started implementing shipping labels that have self-

adhesive properties, thereby eliminating waste from the siliconized liner roll.

Products

Defining Sustainable Fashion

We want to lead the industry toward one common standard for sustainability. There is no industry-wide definition of what constitutes sustainable fashion. This lack of a global standard results in brands and retailers using broad and often conflicting language, which leads to customer confusion. On a brand level, we have introduced mandatory sustainability assessments, as described in the previous section. On the product level, we are taking action to highlight the different benefits of our growing sustainability assortment according to our sustainability criteria and want to make it easy for customers to make more sustainable purchasing decisions.

Currently, we identify products as being more sustainable through the sustainability flag. This flag is not a certificate but highlights products that fulfill at least one of our sustainability criteria³⁴, which are shown on the product pages. These include third-party certifications (such as GOTS, Fairtrade, Bluesign) or the use of more sustainable materials and manufacturing processes, based on data from the Higg Materials Sustainability Index and Textile

Exchange's Preferred Fiber and Materials Market Report. To continuously expand this sustainability assortment, we have set ourselves the following goal with the launch of our do.MORE strategy: "By 2023, we generate 20% of our GMV (Gross Merchandise Volume) with more sustainable products. Due to our progress we have decided to raise our target to 25% by 2023."

As of 31 December 2020, we offered our customers over 80,000 more sustainable products (25,000 in December 2019). In 2020, we generated 16% of GMV³⁵ with more sustainable products. In 2020, almost 50%³⁶ of our Fashion Store customers bought at least one product carrying the sustainability flag.

In 2020, we started the process of updating our Code of Conduct and Ethical Sourcing Standards which set the baseline for social, environmental and chemical compliance and aim to provide clear guidance on incremental improvement expected from our business partners by 2023. The updated policies will be rolled-out by Q2 2021. Product-specific sustainability information such as certifications is collected during the order process along with other data like size and material composition. We

³⁴ Sustainability product criteria: eco-material (min. 50% lyocell, linen, hemp, jute, LENZING VISCOSE™/ECOVERO™, TENCEL™, Birla Spunshades, FSC-certified wood/rubber/paper/cork), organic cotton (min. 50%), recycled material (min. 20% polyester/nylon, cotton, cellulose, wool, down, rubber, leather, metal, plastics), Better Cotton (BCI), eco-processing (bluesign®, SteP by OEKO-TEX®, OEKO-TEX® Made in Green, chrome-free leather, water-based PU), innovative materials (leather alternatives, bio-based materials, materials upcycled from waste). Certifications: fairtrade, Global Organic Textile Standard, Organic Content Standard, Global Recycle Standard, EU Ecolabel, Responsible Wool Standard, Responsible Down Standard, Leather Working Group

³⁵ After returns for Fashion Store Wholesale, Fashion Store Partner Program, Fashion Store Connected Retail, Lounge, Outlets, Zalon

³⁶ Before returns



launched technical improvements to help our brand partners provide, and if necessary correct, the product-specific sustainability information more easily and digitally. We also improved our due diligence processes by introducing a weekly verification of sustainability claims across the entire assortment. We also reviewed and updated our sustainability criteria, for example by raising our recycled content minimum from 20% to 30%, which will be rolled out in 2021. Lastly, we introduced sustainability criteria³⁷ to the Beauty category based on the ingredients or packaging of the product.

We know we cannot achieve the shift to a more sustainable future by ourselves and rely on strong partnerships with the industry to help drive positive change, including the Sustainable Apparel Coalition, Global Fashion Agenda, Ellen MacArthur Foundation, Textile Exchange and Fashion for Good.

Sustainability in our Private Label Products

In addition to the product criteria outlined above, we are committed to ensuring that our products are manufactured in factories that meet our ethical and environmental standards. In 2020, 166 factories representing 90% of our production volume completed the Higg Index's Facility Environmental Module and shared their results with us. This will help to track and reduce the negative impact of our supply chain, such as greenhouse gas emissions, water use and waste.

We continued to increase the share of products with more sustainable materials with almost 50% of products meeting the sustainability criteria and carrying the sustainability flag online in 2020. All products of our private label ZIGN fulfill sustainability criteria since Spring/Summer 2020. In addition to renewing our Responsible Down Standard certification in 2020, we were successfully certified to the Responsible Wool Standard which ensures animal welfare standards and has a progressive approach to land management. We also became certified to the Organic Content Standard and the Recycled Content Standard to increase the traceability of our certified products.

Looking forward, in 2021 the private labels will set long term sustainable sourcing targets for our highest volume and highest-risk fibers and are also committed to scaling up more circular product design and increasing public transparency of our suppliers.

Extending the Life of Fashion

The current dominant model of production in the fashion industry follows a linear "take, make, waste" logic that has severe environmental impacts. The circular economy, on the other hand, is a system that is restorative by design. It aims to ensure that resources never become waste but are kept at their highest value for as long as possible, cycling through different loops until they either return to earth as nutrients or are recycled into new products. A circular

economy therefore represents a systemic shift which goes beyond reducing the negative impacts of the linear system, and provides multiple opportunities to deepen relationships with customers, build long-term resilience across different business models, and drive positive environmental and societal impacts. We want to experiment and collaborate across the industry to help create this systemic shift. There are multiple levers that can be pulled, for example, at the design stage to make fashion last longer or business models that create customer value through resale and other solutions. With the launch of our do.MORE strategy, we set ourselves the following goal: "By 2023, we apply the principles of circularity and extend the life of at least 50 million fashion products."

In 2020, we extended the life of more than 340,000 fashion products.

We launched our Pre-owned category in the Fashion Store in Germany, Spain, Belgium, France, the Netherlands and Poland. Customers can trade-in or buy pre-owned items while experiencing Zalando's usual convenience proposition. All items are quality checked by Zalando. After trading in their fashion items, customers can choose to either receive a Zalando gift card in the respective amount or support one of two donation partners, the Red Cross or WeForest. Items that do not fulfill

37 Sustainability beauty criteria: less packaging (min. 50% recycled packaging or packaging designed to be refillable), organic (min. 50%), natural (min. 95%), forest-friendly (100% FSC-certified paper/wood, or contains palm oil, palm kernel or derivatives from sustainable certified sources), biodegradable (min. 60%), kind to animals (certified cruelty-free by a third-party standard).



quality requirements can either be sent back to the customer or donated. The customer demand for pre-owned items is promising and we are planning to expand this offering to other markets.

Furthermore, we kick-started circularity within our private labels by teaming up with Fashion for Good and the startup circular.fashion to develop the “redeZIGN for Circularity” capsule collection for our private label ZIGN. The purpose of the pilot was to test an end-to-end solution that goes beyond circular design and scale the learnings across our private label business and brand partners, to make it easier for customers to extend the life of garments. We will continue to monitor the success of the collection and customer engagement over the coming months, and aim to integrate circular design principles across more of the private label assortment throughout 2021.

Lastly, we joined the Ellen MacArthur Foundation in order to drive industry-wide innovation and solutions on our way to achieving our goal. We hope to gain from the Foundation’s circular economy expertise and to contribute to a circular future for fashion.

People

Raising the Bar on Ethical Standards

The fashion industry has endemic problems when it comes to human rights and social standards. Because of our size and reach, we see it as our responsibility to lead the way in creating a more ethical fashion industry. This means laying out clear standards for our own company and business partners and fostering meaningful collaborations to create the change we want to see. While we have set up important processes in the past years, we recognize that there remains work to be done to raise the bar when it comes to industry best practice and the standards we uphold both for ourselves and for our partners around human rights. That is why with the launch of the do.MORE strategy, we set ourselves the following goal: “By 2023, we have continuously increased our ethical standards and only work with partners who align with them.”

With the global risk consultancy Verisk Maplecroft, we engaged in an in-depth analysis of our approach to human rights in all business units across the Zalando Group. Together we developed a roadmap until 2023, highlighting key actions and steps to be taken to raise our corporate standards. Each business unit received their own bespoke action plan outlining a prioritized list

of actions to be addressed to improve their human rights and ethical standards due diligence cycle. As a part of this we worked on defining our ethical standards, which include our Code of Conduct and depending on the business our Ethical Sourcing Standards and Social Standards. We will continue to improve oversights and harmonized tracking mechanisms to identify which partners comply or do not comply with our standards.

In our business relationships it is our aim to be collaborative and improvement driven. When we identify an issue, we communicate with our partners and are able to work closely together to address the topic at hand and pursue the correct solution. In 2020, 7 partners had ethical standards violations, meaning clear and severe allegations of violations of our Code of Conduct. We pause the business relationship (e.g. disallowing the selling of products on our platform) while we investigate the allegations. Business relationships are terminated with partners that do not engage in the process of remediation or are unable to raise their standards to meet our requirements. Two relationships were reinstated after satisfactory remediation, the other five have been terminated.

Assessing Our Partner Brands

In 2020, we started to roll-out the collection of self-assessments from brand partners by using the Sustainable Apparel Coalition’s (SAC) Higg Brand & Retail Module (BRM). This allows us to gather comparable sustainability



data to better understand and act on the challenges faced by the industry. We are using the Higg BRM for our strategic partners covering the majority of our business and we will develop a leaner version for our smaller partners. Brand partners have to complete the sustainability self-assessment on a yearly basis, in addition to agreeing to our Code of Conduct and Ethical Sourcing Standards.

Assessing Our Private Labels

A crucial part of our work for our private labels is confirming that our sourcing partners comply with our Zalando group-wide Code of Conduct and treat workers with dignity. Our audit program is aligned with industry standards and works to build transparent and collaborative partnerships with our suppliers. Within the program, all Tier 1 factories must provide us with social audits on a yearly basis, which are evaluated according to our internal non-compliance matrix, based on our Code of Conduct, local legal requirements, and industry standards including SMETA and BSCI. Findings of non-compliance are classified as minor, major, or critical (zero-tolerance), from which the factory is issued an overall rating and, if necessary, a Corrective Action Plan (CAP).

Before placing any orders with new suppliers and factories, we require that all sourcing partners agree to and meet all our ethical requirements. As part of the onboarding process, new suppliers must agree to our Code of Conduct and provide a factory audit report conducted within the last twelve months. If any critical issues are

observed, the supplier must provide evidence of correction, such as a new third-party, on-site audit, before we begin the business relationship. In the past year, we declined to onboard 5 factories or suppliers due to non-compliance.

We require existing factories to provide us with new audits every twelve months to ensure we have visibility on current factory conditions. In 2020, we evaluated 229 audit reports for new and existing factories. If a critical non-compliance issue is found at an existing factory, the factory must remediate the issue and provide a new audit within seven months. To continue our business relationship, we require our sourcing partners to demonstrate improvement.

For our six Private Labels, we source products from 16 countries and currently work with 112 sourcing partners and 195 factories. Increasing transparency continues to remain a focus for us. In 2020, we disclosed 100% of our Tier 1 suppliers on our website and also shared this data with the Open Apparel Registry (OAR) to further enhance transparency, access OAR IDs for these facilities and facilitate collaboration with stakeholders. We are committed to increasing transparency and disclosing deeper levels of our supply chain on an ongoing basis.

Assessing Our Logistics

We have set out our expectations for our own fulfillment centers and those of our partners in clear Social Stand-

ards which are based on our Code of Conduct as well as additional relevant local regulations, covering key topics such as equal opportunities, remuneration, working hours and freedom of association.

Our third-party logistics providers must sign the Social Standards as a requirement for working with Zalando and we have continued our auditing program evaluating whether they fulfill our expectations regarding decent working standards. All warehouses — both Zalando's own warehouses and third-party sites — are audited twice a year by our external auditing partner against a checklist reflecting the contents of the Social Standards. If the audits reveal findings that are non-compliant with our standards, our operations teams work with the respective sites to implement appropriate measures.

Furthermore, our own operations for Customer Support are also audited once a year under the above-mentioned approach. As of this year, the program has also been extended to cover our third-party service providers for Customer Support and a pilot program was also launched within our Premium Logistics Delivery network.

In an effort to continue our monitoring program of the Social Standards during the coronavirus pandemic without putting the safety of workers and auditors at risk, virtual audits were developed with the help of our third-party auditors and took place once for all locations, and a second time where necessary. While we aim to revert to



on-site auditing as soon as it is deemed safe, the virtual audits have enabled the continuation of monitoring and have opened the door to new auditing techniques as we move into more complex industries.

Preparing Our Workforce for the Future

In an ever-evolving world, we have to bridge the transition of skills needed by people now and in the next years to match future work requirements. The world of work is constantly evolving, and personal growth and development are more important than ever for employees while new industries continue to emerge that disrupt the status quo. Unpredictable events like the coronavirus are proof points that companies and individuals need to evolve their skills to adapt. In all of this constant change the greatest skill we have is the ability to learn — to take on new information, develop new skills, learn new ways of working, and adapt to the changing world of work. We want to give people the opportunity to learn new skills and build their career in a changing job market. Next to the individual prosperity we also see a great societal motivation to act in this context. That is why, with the launch of the do.MORE strategy, we set ourselves the following goal with 2020 as the baseline year: “By 2023, we have supported 10,000 people in the workforce by providing skilling opportunities that match future work requirements.”

We have chosen to shape our future, making sure our workforce has the skills to thrive in a rapidly changing world. The Scope of the goal is split between our own workforce, the workforce in our private label supply chain and in our brand partner supply chains. Our combined contributions will together make up the goal of supporting 10,000 people.

In 2020, 1,355 people³⁸ (1,130 in ZALANDO SE) received skilling training. For Zalando, skilling encompasses upskilling, reskilling and metaskilling. Upskilling means providing additional skills to perform a current role where the requirements will be changing in the near or distant future. Reskilling means acquiring new skills to transition from a current role to a new future role in the same or different area. Metaskilling means having a growth mindset, which is about enabling individuals to develop a new mindset embracing lifelong learning and other overarching life skills (e.g. flexibility and adaptability, initiative and self-direction).

This year we focused on scoping the goal narrative and measures we want to take. We plan to achieve the goal via three approaches: (1) by providing skilling opportunities that match the mega trends³⁹ of future work requirements to all Zalando employees through our Zalando Training Platform, (2) by providing up- and reskilling to Zalando employees with specific learning interventions and educational programs for clear capability shifts of identified affected roles and by providing them with pro-

fessional certification, and finally (3) by offering up- and reskilling programs that address need-gaps of the workforce in our private labels supply chain factories and brand partner supply chain factories.

When assessing the skilling training offered to Zalando employees within the first approach, we have considered training offers that align with the mega trends identified, that are not mandatory or legally required, that are not considered required for “daily business” and that build long term skills. We identified 67 training courses, for example software training such as Lean Six Sigma Yellow Belt or programming training such as SQL. In our German warehouses through our second approach we run programs that support upskilling and reskilling opportunities for employees, for example to become a team lead or an area lead. On top of that we started piloting new externally funded programs such as a preparation program for a Security Guard certification and other professional certification programs. We will continue to offer and develop additional programs in 2021. With regards to our third approach, in 2021 we plan to conduct a needs assessment in our private label supply chain and kick-off a skilling pilot based on this, which we aim to scale in the coming years to drive broader impact.

³⁸ Includes ZALANDO SE or Zalando Group employees, supply chain workers in private labels or brand partners



Being Part of the Solution

As a large employer, we strive to be a good corporate citizen and want to play an active role in the communities around our various locations. Over the past five years, we have built a Corporate Citizenship program primarily focused on volunteering, humanitarian aid and supporting ventures that address supply chain transparency. In times of crisis such as the coronavirus pandemic this year, it has been our first priority to protect our employees by keeping them safe from harm, to protect our company by keeping it operational at all times, and to protect the communities we operate in by being a part of the global solution towards the pandemic.

We support our employees with two volunteering days per year and offer volunteering opportunities in Germany via our partner [vostel.de](#), with whom we have been working since their founding in 2015. In 2020, 165 Zalandos have supported 41 projects through 898 hours of volunteering. Due to the coronavirus crisis, we worked with [vostel.de](#) to curate a variety of online volunteering opportunities, for example, online mentoring for young people who need help with their job application process.

Furthermore, as part of our regular humanitarian aid efforts, we donated EUR 55,000 from our disaster relief fund on [betterplace.org](#) to respond to global crises. For instance, we supported people in dire need who had been affected by an explosion in Beirut, Lebanon. We also

made over EUR 170,000 worth of in-kind donations consisting mainly of clothing to a number of partner organizations.

In our efforts to be part of the solution to the coronavirus pandemic, we donated EUR 5 million to a number of organizations as part of mainly four strategic projects.

Firstly, in April 2020 we launched [Changemakers United](#), a joint project with our long-term partner [Ashoka](#), to find and scale solutions for the immediate and mid-term effects of the pandemic on our societies and economies. Together, we scouted 20 social entrepreneurs across Europe that have developed innovative solutions in the areas of health care, vulnerable groups, education, reliable information and economic and political effects. With this project we were able to match the selected entrepreneurs with almost 150 mentors and experts, supporting in the areas of marketing, communications, business planning, fundraising, digitization and legal expertise. With this, as well as additional financial support from various companies and donors, [Ashoka](#) estimates that the entrepreneurs were able to scale their solutions to 35 countries worldwide and reach more than 400 million people directly or indirectly. The program was furthermore replicated by [Ashoka](#) networks in Latin America, Africa and South Asia.

Secondly, as social distancing and school closures in the first wave were particularly difficult for underserved disadvantaged families and children, we sent “Boxes of Joy”

containing Zalando products to over 37,000 children and adolescents between the ages of 4–18 in 17 European countries to create a moment of joy for them in these difficult times.

Thirdly, we responded to the demand for facemasks by offering non-medical, textile masks to our customers, both from our private labels and from partner brands. We donated the profit generated from the sales of these products to international efforts against COVID-19 of our partners [humedica e.V.](#), [Ashoka](#) and several German organizations working on mental health support via our fund on [betterplace.org](#).

Lastly, in the context of the second wave of the coronavirus, the World Health Organisation (WHO) outlined the main needs within communities to be mental health services and psychological support. That is why we supported the Red Cross with funding for coronavirus response and local mental health support for vulnerable communities in eight⁴⁰ of our markets.

³⁹ We have identified the following mega trends: we will all need to work more inclusively, we will need to work with new technologies, we will need to work in new ways in new places, we will need to work more collaboratively, we will need to work more innovatively, we will need to work with more empathy

⁴⁰ France, Italy, Spain, the Netherlands, Belgium, Norway, Sweden and Germany



Corporate Governance

Our Code of Ethics, which is available on the corporate website and has been communicated to the employees in various languages, sets expectations and provides guidance on how Zalando wants to do business and is the basis of all group policies. In the first quarter of 2020, the Code of Ethics was updated, followed by a holistic roll-out of the new version to the whole Zalando group. Thereby, Zalando once again stressed the importance of ethical behavior.

Under the Code of Ethics, all employees are required inter alia to comply with the law and our group policies, including, but not limited to, anti-corruption practices, antitrust regulations, data protection and insider compliance, and tax provisions. The Code of Ethics is structured around four sections: together we win, we focus on what matters, we act like owners, we follow the law. Fostering a speak-up culture so that employees actively participate and raise concerns or report compliance breaches is an essential part of Zalando's culture. This expectation is complemented by the promise to protect all those who report an incident in good faith from negative consequences.

Our Code of Conduct for business partners, which is published on the corporate website, sets the minimum standards by which business partners who produce or supply goods and services for us must abide. Every business

partner must acknowledge these standards to assure a safe and fair working environment and to commit to compliance with applicable laws and regulations regarding the protection and preservation of the environment. The Code of Conduct clearly states that Zalando does not accept any form of corrupt practices including, but not limited to, extortion, fraud, or bribery. Business partners are expected to comply with applicable national and international regulations and must establish appropriate anti-bribery and anti-corruption policies and communicate them to all business areas. Zalando carries out business partner due diligence (sanction list screening and compliance database and adverse media checks, followed by an in depth review carried out by the Compliance & Business Ethics Team in case of findings) for defined groups of business partners⁴¹ and in cases where potential compliance risks are apparent.

Zalando maintains a group-wide Compliance & Business Ethics Team to monitor, manage, document and report on compliance risks deriving from breaches of the law, group policies and ethical standards in business. Zalando's compliance management system encompasses policy management, a help desk function, whistleblowing management (including internal investigations where required), business partner due diligence, compliance-related trainings, and monitoring of certain types of expenses. In the reporting period, the Compliance & Business Ethics Team followed up on external audit recommendations

from 2019 to further improve the compliance management system of ZALANDO SE.

All employees in Scope are trained on compliance at Zalando, our Code of Ethics, Code of Conduct and group policies, including anti-corruption related policies, e.g. our Group Policy Benefits, Gifts, Events & Expenses. Mandatory compliance training courses are conducted as face-to-face training courses for leads, and generally as e-learning courses for employees without leadership responsibility. The e-learning courses are mandatory for all employees who have a Zalando email address (except for defined roles with low compliance risks in logistics and stores). Employees at sites outside Berlin receive classroom training instead of e-learning courses to facilitate personal contact with the central Compliance & Business Ethics Team. Due to the ongoing COVID-19 pandemic in the reporting period, the face-to-face format was conducted via video chat without any recognizable constraints for trainers or participants.

In the reporting period, 43 compliance basics face-to-face training courses were carried out (2019: 41). Since March, the trainings were conducted via video chat due to the ongoing pandemic situation. 4,116 employees completed the compliance basics e-learning courses (2019: 4,263), among them 2,277 employees of ZALANDO SE (2019: 2,164). Each mandatory training

41 According to commodity groups, namely logistic services, professional services, corporate property, packaging and direct business partners in sourcing for private labels and in overstock management.



course is followed by mandatory refresher courses every other year. Employees receive an automatic reminder to fulfill their training obligations. If the employees do not fulfil their obligations, the lead will be informed and reminded repeatedly until the training is completed.

Various communication channels are available to facilitate the reporting of presumed compliance infringements to the Compliance & Business Ethics Team. They can inter alia be reported — in various languages — via a whistleblowing tool from a third-party provider, on an anonymous basis if preferred. The anonymous and protected reporting channel is available to employees as well as third parties. All reported cases are managed by the Compliance & Business Ethics Team; serious cases of (potential) compliance violations are additionally managed by a compliance panel. Information on detected compliance infringements, important updates of processes or policies, as well as training attendance quotas are reported to the Management Board and the audit committee of the Supervisory Board at least on a quarterly basis.

The Management Board bears overall responsibility for the proper functioning of the risk and compliance management system and the Supervisory Board monitors the effectiveness of the system.



Independent Auditor's Limited Assurance Report

The assurance engagement performed by Ernst & Young (EY) relates exclusively to the German version of the combined non-financial report 2020 of ZALANDO SE. The following text is a translation of the original German Independent Assurance Report.

To ZALANDO SE, Berlin

We have performed a limited assurance engagement on the non-financial report of ZALANDO SE according to §289b HGB ("Handelsgesetzbuch": German Commercial Code), which is combined with the non-financial report of the group according to §315b HGB for the reporting period from 1 January 2020 to 31 December 2020 (hereafter combined non-financial report). The combined non-financial report is included in the annex to the sustainability report of ZALANDO SE. Our engagement did not include any disclosures for prior years.

Management's responsibility

The legal representatives of the Company are responsible for the preparation of the combined non-financial report in accordance with §§315c in conjunction with 289c to 289e HGB.

This responsibility includes the selection and application of appropriate methods to prepare the combined non-financial report as well as making assumptions and estimates related to individual disclosures, which are reasonable in the circumstances. Furthermore, the legal representatives are responsible for such internal controls that they have considered necessary to enable the preparation of a combined non-financial report that is free from material misstatement, whether due to fraud or error.

Auditor's declaration relating to independence and quality control

We are independent from the Company in accordance with the provisions under German commercial law and professional requirements, and we have fulfilled our other professional responsibilities in accordance with these requirements.

Our audit firm applies the national statutory regulations and professional pronouncements for quality control, in particular the by-laws regulating the rights and duties of Wirtschaftsprüfer and vereidigte Buchprüfer in the exercise of their profession [Berufssatzung für Wirtschaftsprüfer und vereidigte Buchprüfer] as well as the IDW Standard on Quality Control 1: Requirements for Quality Control in audit firms [IDW Qualitätssicherungsstandard 1: Anforderungen an die Qualitätssicherung in der Wirtschaftsprüferpraxis (IDW QS 1)].

Auditor's responsibility

Our responsibility is to express a limited assurance conclusion on the combined non-financial report based on the assurance engagement we have performed.

We conducted our assurance engagement in accordance with the International Standard on Assurance Engagements (ISAE) 3000 (Revised): Assurance Engagements other than Audits or Reviews of Historical Financial Information, issued by the International Auditing and Assurance Standards Board (IAASB). This Standard requires



that we plan and perform the assurance engagement to obtain limited assurance about whether the combined non-financial report of the Company has been prepared, in all material respects, in accordance with §§315c in conjunction with 289c to 289e HGB. In a limited assurance engagement the assurance procedures are less in extent than for a reasonable assurance engagement and therefore a substantially lower level of assurance is obtained. The assurance procedures selected depend on the auditor's professional judgment.

Within the Scope of our assurance engagement, which has been conducted between December 2020 and March 2021, we performed amongst others the following assurance and other procedures:

- Inquiries of employees regarding the selection of topics for the combined non-financial report, the risk assessment and the concepts of ZALANDO SE for the topics that have been identified as material,
- Inquiries of employees responsible for data capture and consolidation as well as the preparation of the combined non-financial report, to evaluate the reporting processes, the data capture and compilation methods as well as internal controls to the extent relevant for the assurance of the combined non-financial report,
- Identification of likely risks of material misstatement in the combined non-financial report,

- Inspection of relevant documentation of the systems and processes for compiling, aggregating, and validating data in the relevant areas, in the reporting period and testing such documentation on a sample basis,
- Analytical evaluation of disclosures in the combined non-financial report,
- Inquiries and inspection of documents on a sample basis relating to the collection and reporting of selected data,
- Evaluation of the presentation of disclosures in the combined non-financial report.

Assurance conclusion

Based on our assurance procedures performed and assurance evidence obtained, nothing has come to our attention that causes us to believe that the combined non-financial report of ZALANDO SE for the period from 1 January 2020 to 31 December 2020 has not been prepared, in all material respects, in accordance with §§ 315c in conjunction with 289c to 289e HGB.

Intended use of the assurance report

We issue this report on the basis of the engagement agreed with ZALANDO SE. The assurance engagement has been performed for the purposes of the Company and the report is solely intended to inform the Company as to the results of the assurance engagement and must not be used for purposes other than those intended. The report is not intended to provide third parties with support in making (financial) decisions.

Engagement terms and liability

The "General Engagement Terms for Wirtschaftsprüfer and Wirtschaftsprüfungsgesellschaften [German Public Auditors and Public Audit Firms]" dated 1 January 2017 are applicable to this engagement and also govern our relations with third parties in the context of this engagement (www.de.ey.com/general-engagement-terms). In addition, please refer to the liability provisions contained there in no. 9 and to the exclusion of liability towards third parties. We assume no responsibility, liability or other obligations towards third parties unless we have concluded a written agreement to the contrary with the respective third party or liability cannot effectively be precluded.

We make express reference to the fact that we do not update the assurance report to reflect events or circumstances arising after it was issued unless required to do so by law. It is the sole responsibility of anyone taking note of the result of our assurance engagement summarized in this assurance report to decide whether and in what way this result is useful or suitable for their purposes and to supplement, verify or update it by means of their own review procedures.

Munich, 15 March 2021

Ernst & Young GmbH
Wirtschaftsprüfungsgesellschaft

Nicole Richter
Wirtschaftsprüferin
(German Public Auditor)

Annette Johnne
Wirtschaftsprüferin
(German Public Auditor)



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102-51	Date of most recent report		February 27, 2020
102-52	Reporting cycle		Annual
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103-1/2/3	Management approach	31, 44, 61	

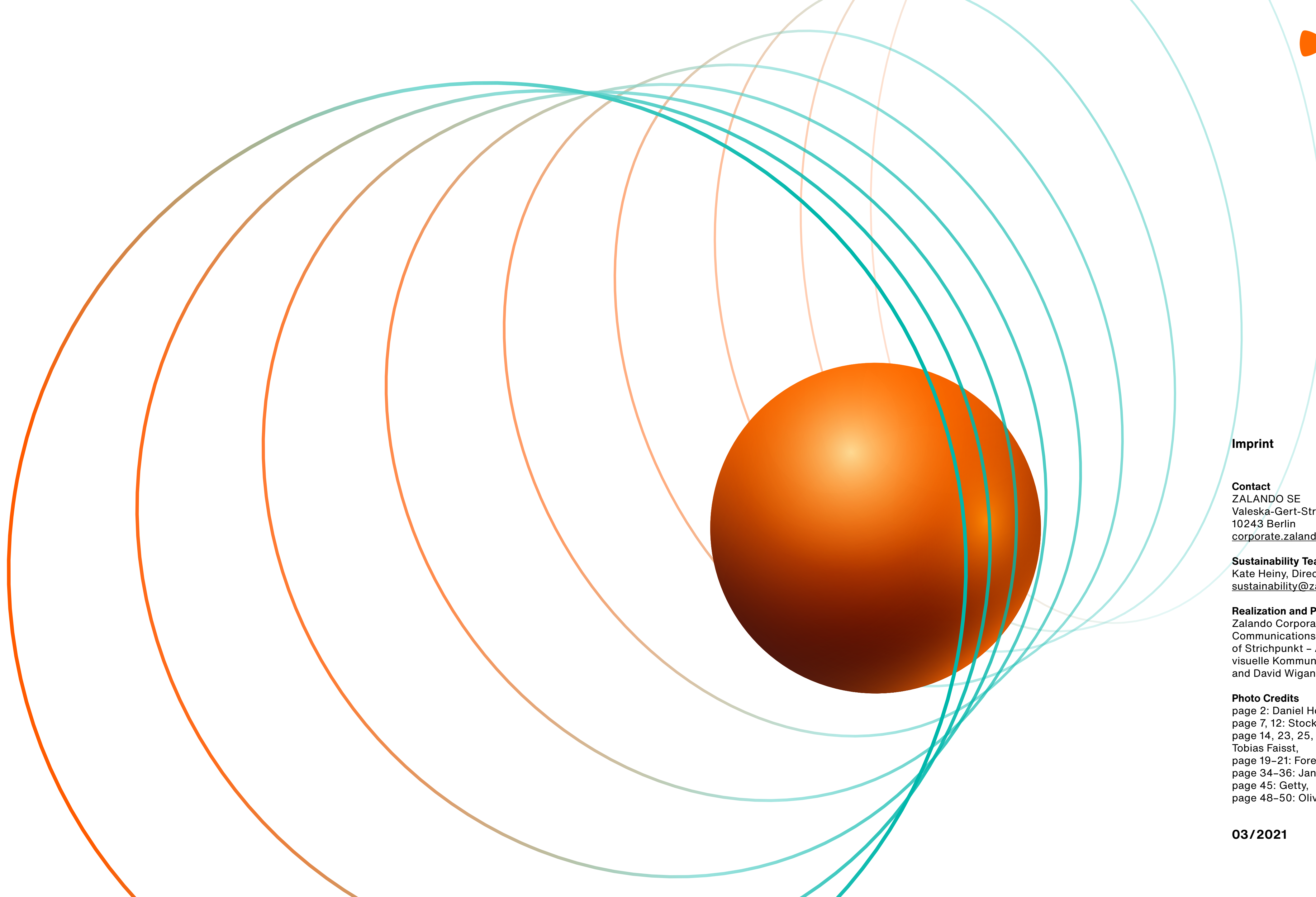
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GRI 405 Diversity and Equal opportunity			
103-1/2/3	Management approach		Please see our Diversity and Inclusion Report 2020
405-1	Diversity of governance bodies and employees	10	



Number	Disclosures	Page	Notes in case of omissions and further explanations
GRI 407 Freedom of Association and Collective Bargaining			
103-1/2/3	Management approach	42,44, 62, 63	Our <u>Code of Conduct</u> sets the standards that we expect 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.
407-1	Operations and suppliers in which the right to freedom of association and collective bargaining may be at risk	44, 63	
GRI 408 Child Labor			
103-1/2/3	Management approach	42,44, 62, 63	Our <u>Code of Conduct</u> sets the standards that we expect 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.
408-1	Operations and suppliers at significant risk for incidents of child labor	44, 63	

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GRI 409 Forced or Compulsory Labor			
103-1/2/3	Management approach	42,44, 62, 63	Our <u>Code of Conduct</u> sets the standards that we expect 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.
409-1	Operations and suppliers at significant risk for incidents of forced or compulsory labor	44, 63	
GRI 412 Human Rights Assessment			
103-1/2/3	Management approach	41, 42, 44,62, 63	Our <u>Code of Conduct</u> sets the standards that we expect 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. Please also see our <u>Modern Slavery Statement</u> for more detail.
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Imprint

Contact

ZALANDO SE
Valeska-Gert-Str. 5
10243 Berlin
corporate.zalando.com

Sustainability Team

Kate Heiny, Director Sustainability
sustainability@zalando.de

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