

respective climate journeys, where Zalando has already set itself ambitious targets through the Science Based Targets initiative (SBTi). The Zalando Sustainability Awards in collaboration with Copenhagen Fashion Week also continue to contribute to the goal of encouraging fashion brands to explore alternative approaches to design and production and contribute to a more responsible fashion industry that is less harmful to the environment. ISO.POETISM BY TOBIAS BIRK NIELSEN won the third such Zalando Sustainability Award in February 2022, with RANRA winning the fourth in August 2022.

We continue to commit improving the ways in which we operate and communicate around Sustainability topics. We have been working diligently behind the scenes to ensure that we are ready to comply with all of the relevant legislation and regulations affecting the industry in which we operate, including the new German Supply Chain Act (Lieferkettensorgfaltspflichtengesetz) coming into effect on January 1, 2023. We also made several important changes to our user experience during the year to improve levels of transparency, better communicate sustainability-related product attributes and stories, and enable our customers to make more informed choices when it comes to fashion.

We have made significant progress against our Sustainability goals over the last few years and this is a topic that continues to connect all parts of our business, our supply chain partners and the planet on which we live. We continue to learn a lot from our teams, our partners and the rest of our industry and will implement further improvements over the course of 2023. We will also continue to train internal and external partners on sustainability topics related to the many legislative developments taking place and collaborate with our stakeholders, whether these are brands, customers, NGOs or governments, on our journey to become a more sustainable fashion platform with a net-positive impact for people and the planet.

#### 2.1.4 Combined non-financial declaration<sup>9</sup>

The text presented below is the combined non-financial declaration 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) and Article 8 of the EU Taxonomy Regulation. 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 as referenced in the Zalando Sustainability Progress Report and the German implementation of the CSR Directive on Non-Financial Reporting (CSR-RUG) regarding materiality requirements, we have not applied any framework to the non-financial declaration 2022.

The selection of material topics for our non-financial declaration 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 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

<sup>9</sup> The non-financial declaration has been reviewed with separate limited assurance engagement in accordance with ISAE 3000 (Revised): "Assurance Engagements other than Audits or Reviews of Historical Financial Information".

corresponding topics. Eight topics were identified as material in accordance with CSR-RUG. Relevant information on each of these topics is set out in the table below.

#### Overview non-financial declaration 2022

CSR-RUG required aspects	Topic reported	Reported in
<b>Environment</b>	Transportation and delivery	Planet: "Driving down greenhouse gas emissions in line with climate science"
	Packaging and product waste	Planet: "Reimagine packaging, minimize waste"
<b>Human rights</b>	Human rights	People: "Increased focus on ethical standards"
<b>Employee matters</b>	Employee development	People: "Preparing our workforce for the future"
<b>Social matters</b>	Community engagement	People: "Being part of the solution"
<b>Anti-corruption</b>	Anti-corruption	"Corporate governance practices" (see 2.5.8. in the corporate governance statement)
<b>Additional</b>	Sustainability assortment, incl. product design and product transparency	Products: "Driving more informed choices"
	Sustainability services	Products: "Extending the life of fashion"

A description of Zalando's business model is provided in [2.1.1 Business Model](#) of the combined management report.

In order to prepare for upcoming reporting legislation, we conducted a new materiality analysis in the second half of 2022. The results of this materiality analysis confirm the current material reporting topics that provide the basis for this non-financial declaration 2022.

### Sustainability strategy and governance

The materiality analysis conducted in 2019 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 vision to be a sustainable fashion platform with a net-positive impact for people and the planet. Having a net-positive impact means that we aim to run our business in a way that gives back more to society and the environment than we take. We recognize 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 covering three strategic pillars affect the entire Zalando group:

## Planet

- By 2025, we achieve our science-based targets<sup>10</sup> 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 design our packaging to minimize waste and keep materials in use, specifically eliminating single-use plastics.

## Products

- By 2023, we generate 25% of our GMV (Gross Merchandise Volume) with more sustainable products.
- 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 of the six goals is managed in a workstream structure with an executive sponsor and multifunctional teams across the business. The sponsors, together with functional representatives, meet every quarter in the Sustainability Forum, which is chaired by Co-CEO David Schneider. The Sustainability Forum serves as the overarching steering committee and keeps the necessary strategic oversight. In addition to the Sustainability Forum, we established the Diversity & Inclusion (D&I) and sustainability committee of the Supervisory Board in 2021 which meets on a biannual basis. It covers the Diversity & Inclusion strategy as well as the Sustainability strategy and supports the Supervisory Board and its committees in its engagement with their implementation and the related reporting. More information about the D&I and sustainability committee is provided in [2.5.5 Supervisory Board](#)<sup>11</sup> of the combined management report.

Our Governance & Risk team identifies, assesses and monitors risks that might impact our business performance in a biannual risk cycle. The scope of the cycle also includes social and environmental risks. As part of the biannual risk cycle and in preparation for our non-financial declaration, 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 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. We aim at managing potential negative implications through the corresponding teams with adequate due diligence processes and measures.

<sup>10</sup> In 2020, we set science-based emissions reduction targets (SBTs) for our Scopes 1, 2 and 3 that are aligned with the criteria of the Science Based Targets initiative (SBTi). In this non-financial declaration, the term "science-based targets" refers to targets in line with the criteria of the SBTi.

<sup>11</sup> This part of the combined management report is not a mandatory part of this non-financial declaration and is therefore not covered by the external assurance.

## Planet

### Driving down greenhouse gas emissions in line with climate science

The world continues to add carbon dioxide and other greenhouse gases to the atmosphere, putting the goal of limiting global warming to well below 2°C compared to pre-industrial levels, and preferably 1.5°C, ever further beyond reach. We strongly support the Paris climate goals and thus have set emissions reduction targets approved by the Science Based Targets initiative (SBTi). To achieve these targets, we need to consider our activities across every link in our value chain, using all the levers at our disposal. Our task is to implement these effectively and to continue to push forward until we achieve our goals:

- To align with a 1.5°C pathway, Zalando commits to reduce Scope 1 and 2 greenhouse gas (GHG) emissions by 80% by 2025 against a 2017 base year. Zalando also 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 EUR gross profit by 2025 from a 2018 base year. Zalando also commits that 90% of its suppliers (by emissions, including goods and services sold on its platform, packaging and last-mile-delivery partners) will have science-based targets (SBTs) by 2025.

Compared to 2021, our total GHG emissions (Scope 1, 2 and 3) decreased by 5.5% to 5,881,358 metric tons of carbon dioxide equivalent (t CO<sub>2</sub>e). When applying the location-based method in Scope 2, our total emissions were 5,948,549 metric tons – a 5.5% decrease from 2021.

We reduced our Scope 1 and 2 GHG emissions by 78% against a 2017 base year (compared to 67% in 2021). This significant progress has been driven by a lower gas consumption in our logistics network, as well as by improved data quality. More specifically, we can now utilize actual refrigerant leakage data rather than industry averages, leading to cooling emissions being significantly lower than previously reported. Additionally, we now have access to supplier-specific emission factors for district heating. These emission factors reflect the switch to lower carbon energy sources for district heating from our suppliers.

Since joining the RE100 initiative in 2020, we have obtained all our electricity from renewable sources, ensuring alignment with RE100 Technical Criteria. We use a combination of procurement tools, primarily green tariffs and onsite power purchase agreements. Our energy management system is certified to the latest ISO 50001 standard and our fulfillment centers and offices have green building certification<sup>12</sup>.

The majority of our emissions stem from Scope 3 sources. This includes emissions from manufacturing, packaging, and transportation of the products we sell on our platform. In 2022, Scope 3 emissions accounted for 99.9% of our total emissions.

To minimize the emissions from products we sell through our retailing and platform businesses, we work closely with our brands, logistics and packaging partners to support

<sup>12</sup> The certification is based on LEED (Leadership in Energy and Environmental Design) and BREEAM (Building Research Establishment Environmental Assessment Method) among others.

them in emissions reduction target setting in line with the SBTi criteria. To scale our efforts, we joined forces with online retailers ABOUT YOU and YOOX NET-A-PORTER to launch FASHION LEAP FOR CLIMATE, a learning platform that provides opportunities for peer learning and step-by-step guidance on measuring emissions and setting targets aligned with climate science. Brand, packaging and last-mile delivery partners accounting for around 58% of our 2022 supplier-related emissions had set science-based targets as of end of 2022. In 2021, partners with SBTs accounted for 52% of supplier-related emissions.

The products sold on our platform and via our outlet stores account for 69.5% of our total emissions, with private label products accounting for 8.4% of that total. We continue to work towards reducing emissions generated by our private label products. In 2022, we refined our GHG inventory accounting approach to better account for product weights. This resulted in adjustments to previously calculated emissions reduction targets progress<sup>13</sup>, leading to a private labels SBT progress in 2021 of 18% reduction versus the 45% previously reported. In 2022, private label emissions decreased by 14% per million EUR gross profit from a 2018 baseline<sup>14</sup>.

In 2022, we conducted a hotspot analysis of our private label product-related emissions. The analysis served as the basis for a roadmap for switching to more sustainable materials and supporting investment in manufacturing energy efficiency and renewable energy, especially in wet processing facilities, where textile substrates are treated with colorants and/or chemicals, which requires significant energy and water.

#### Greenhouse gas emissions by Scope

In metric tons CO <sub>2</sub> equivalent (T CO <sub>2</sub> e)	2022	2021 <sup>15</sup>
Scope 1	5,512	8,320
Scope 2 (market-based) <sup>16</sup>	588	638
Scope 3 <sup>17</sup>	5,875,258	6,215,336
Total	5,881,358	6,224,294
Purchased carbon removal credits	419,347	438,931

In addition to the above reduction measures, we compensated emissions from our own operations (Scope 1 and 2) and from packaging<sup>18</sup> and upstream transportation and distribution

<sup>13</sup> Both base year emissions and emissions of previous years have been adjusted.

<sup>14</sup> Since this is a relative target, it is impacted by changes both in the numerator and the denominator. Compared to the baseline year (2018) the numerator (absolute private label emissions) grew but the denominator (Zalando gross profit) grew at a higher rate than absolute private label emissions, thus leading to a relative reduction of emissions.

<sup>15</sup> Numbers differ from 2021 reported data. This is mainly due to methodological changes applied to our GHG inventory accounting as well as improved data quality.

<sup>16</sup> The location-based value for Scope 2 emissions in 2022 is 67,779 t CO<sub>2</sub>e.

<sup>17</sup> Our Scope 3 emissions include the following emission categories: purchased goods and services (Private Labels, Wholesale, Partner Program, Offprice, Recommerce, 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, and investments. In 2022, the three main Scope 3 emissions sources were emissions from manufacturing of products that we purchase and commission, the use of sold products and the transportation of products to customers. In 2022, we further updated our methodology for calculating product-related GHG emissions, which included refinements to our approach for managing the weights of products. For calculating emissions from products within the category of purchased goods and services, the main parameters used are the weight and the material composition of such products. As Zalando does not directly purchase or acquire Partner Program products at any stage, and instead provides a marketplace service to partners, the emissions of Partner Program goods can be excluded from the Scope 3 inventory in line with the Greenhouse Gas Protocol. However, in order to give a representative view of our business impacts, we have optionally included Partner Program products in our footprint.

<sup>18</sup> Only the emissions from packaging procured by Zalando are considered, not from the packaging that is procured by third-parties.

(incl. deliveries and returns)<sup>19</sup>. We have procured carbon removal credits for 419,347t CO<sub>2</sub>e (compared to 438,931 in 2021).

### Reimagine packaging, minimize waste

Packaging protects products during preparation for delivery and shipping, but too often the materials are used once and then thrown away. One of our priorities is to move away from a take-make-waste system toward a circular approach to packaging. Finding scalable solutions to eliminate single-use plastic polybags remains our key challenge. In addition, our use of alternative paper-based solutions was constrained in 2022 by supply chain bottlenecks and rising paper costs. We have committed that by 2023, we design our packaging to minimize waste and keep materials in use, specifically eliminating single-use plastics<sup>20</sup>.

In 2022, the Zalando group used more than 62,000t of packaging materials (68,000t in 2021), 86% of which stem from recycled input materials (89% in 2021). Moreover, 99% of our total packaging was recyclable<sup>21</sup> (99% in 2021). The volume of single-use plastic packaging per item produced for our private labels<sup>22</sup> increased by 4.9% to an average of 5.4g, compared to 5.1 g in 2021. The procured amount of single-use plastic packaging per item shipped from Zalando group<sup>23</sup> fell by 37.5% to an average of 5.1 g (compared to 8.1 g in 2021).

In our packaging design, we prioritize materials that contain a high proportion of recycled content and materials that are easily recyclable. Our polybags are made of 90% recycled content; comprising 50% pre-consumer waste<sup>24</sup> and 40% post-consumer waste<sup>25</sup>. This year, we tested 100% post-consumer recycled plastic polybags. In our private label packaging we increased recycled content from around 60% in 2021 to around 85% in 2022 by continuing the implementation of 100% recycled shoeboxes and the transition to 100% recycled polybags.

We have continued to test new approaches to reduce our reliance on single-use plastics. Over the past year, we have passed several milestones:

- **Void fill.** Void fill is the plastic matter we insert in boxes, providing stability and protection. In October 2022, we stopped using single-use plastic void fill in our Zalando Fashion Store shipments. In Lounge by Zalando, we have piloted void fill reduction and paper alternatives.
- **From plastic to paper shipping bags.** In the Zalando Fashion Store, we continued to switch from plastic to paper shipping bags. We reduced our use of single-use plastic shipping bags to around 17% at the end of 2022 (compared to 37% in December 2021).
- **Polybags.** Polybags ensure products are protected throughout their lifecycles. To reduce their use, we continue to introduce more efficient folding techniques in our private labels and reduce bag thickness in our Fashion Store. In the Nordics, we also piloted reusable

<sup>19</sup> Emissions from transportation and distribution comprise emissions from deliveries to customers including returns as well as network transportation.

<sup>20</sup> Single-use plastic packaging is plastic packaging intended to be used only once before being disposed of.

<sup>21</sup> Recyclability refers to packaging material that is suitable for high-quality and mechanical recycling as per the German Packaging Act (VerpackG).

<sup>22</sup> In scope is all customer-facing single-use plastic packaging procured by Zalando private labels (our own fashion brands).

<sup>23</sup> 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 brand partners).

<sup>24</sup> Pre-consumer recycled material includes materials diverted from the waste stream during a manufacturing process.

<sup>25</sup> Post-consumer recycled (PCR) content is material generated by households or by commercial, industrial and institutional facilities in their role as end users of the product that can no longer be used for its intended purpose.

polybags with 100% post-consumer recycled content. These are less likely to be damaged when they are opened, meaning they can be returned intact and used again.

Some packaging solutions, such as paper shipping bags, Zalando shopping bags, and cardboard boxes require virgin materials for strength and durability. As a member of Canopy Pack4Good, we are committed to protecting forests in the sourcing of paper-based packaging. We are continuing to work with our packaging suppliers to expand the use of post-consumer recycled content and request FSC® certification<sup>26</sup> where virgin fibers are used.

## Products

### Driving more informed choices

Our Attitude-Behavior Gap Report<sup>27</sup> has shown that many of our customers want to reflect their sustainability values in their fashion decisions, but struggle to translate their priorities into action. We found that one in two consumers are unclear on what sustainability means in a fashion context. This highlights a need for more specific and reliable product information.

In 2017, we introduced a sustainability flag, which served as a starting point for us to develop our sustainability communications. When we launched our do.More strategy in 2019, we set a target for our sustainability assortment to account for 20% of our Gross Merchandise Volume (GMV) by 2023. We later raised our goal, aiming to generate 25% of our GMV with more sustainable products<sup>28</sup> by 2023.

Since we launched our sustainability flag, the perception of sustainability-related information has changed – from both customers and legislators. We understand this change through regular discourse with stakeholders and take feedback provided to us seriously, using this information to update our processes and methodologies. We started to change our framework to make sustainability-related product information more specific and attribute-based, to meet the growing expectations from all our stakeholders, when it comes to sustainability information. This created a new customer experience through which we would better communicate about the characteristics of products sold on Zalando and their relationship to sustainability. During this period of work, Zalando was the recipient of a greenwashing award from the Norwegian Consumer Council. Following more than a year of work, we stopped using our sustainability flag and in-house criteria, and shifted our focus to third-party standards.

Our new approach is based on the same certifications as the previous criteria, including the Global Organic Textile Standard and trademarked/ licensed fibers, such as TENCEL™, Lyocell and Infinna™. The full list of accepted certified, licensed, and trademark fibers and materials can be found at our Fashion Store. We now require more data from our brand partners which allows us for better substantiation and validation of sustainability information. To support our customers, we make our sustainability-related product information available through tappable icons representing various sustainability attributes. Customers can access information including the percentage of certified material in a product.

<sup>26</sup> FSC® N003557

<sup>27</sup> Zalando, "It Takes Two: How the Industry and Consumers Can Close the Sustainability Attitude-Behavior Gap in Fashion", 2021

<sup>28</sup> Products that fulfill at least one of our Zalando attributes including organic materials and ingredients, recycled materials and packaging, responsibly sourced materials, responsibly sourced ingredients, innovative materials, improved production, designed for circularity, natural ingredients, cruelty free and refillable. The full list of accepted certified, licensed, and trademark fibers and materials can be found at our Fashion Store.

The changes we have introduced bring significant data challenges; both in extracting data from the value chain and sharing it in a standardized format. We continue to collect product-related sustainability information from brands, and we validate information through our weekly enrichment process to check if product data is complete and fulfills criteria such as minimum percentage requirements and minimum certification levels. If we find inaccuracies, we either remove the information or correct the claims.

In 2022, supply chain bottlenecks led to steep increases in the cost of fibers such as organic cotton, while a challenging economic environment put pressure on consumer demand for products with sustainability attributes. This impacted our ability to grow our assortment of products that counted toward our 25% GMV goal. One way we responded was to embrace innovations in the sustainability space. To help grow the supply of organic cotton, we adopted the in-conversion organic standards developed by Global Organic Textile Standard (GOTS) and Organic Content Standard (OCS). We also introduced textile-to-textile recycled fibers such as Cycora®, ECONYL® and NuCycl™. These can be recycled again and again, helping to build a more circular future for fashion.

As of December 31, 2022, we offered our customers more than 180,000 more sustainable products (more than 140,000 in December 2021). With the sale of these products, we generated 17.0% of GMV (21.6% in 2021).<sup>29</sup> The decline was mainly due to adjustments to our criteria, with the aim of using certifications that provide sufficient traceability, in line with EU regulatory guidance. Overall, around 54% of our Fashion Store customers made the decision to buy at least one more sustainable product (almost 60% in 2021).<sup>30</sup>

### Extending the life of fashion

Over the past 20 years, production of fashion items has doubled to over 100 billion items per year, while the average number of times an item is worn has halved, resulting in more resources going to landfill and incineration. However, about 82% of fashion items that are thrown away could be cleaned, repaired, and resold.<sup>31</sup> Circular design means that products are made from safe and recycled or renewable inputs, are used more, and are made to be made again.<sup>32</sup> We are on a journey to accelerate circularity in fashion, creating new business models, infrastructure, and technology solutions. Our ambition is to empower consumers to make better choices on how they engage with and access fashion. To get there, we need to take action through our value chain, from designing products with a longer life, to promoting sustainable purchasing decisions, and encouraging repair.

We aim to extend the life of products through four pillars: design and manufacturing, use, reuse, and closing the loop. In 2022, we continued to develop and deliver our circularity strategy, and took steps in each pillar. Since 2020, we have extended the life of more than 4 million fashion products (more than 1.7 million in 2022). Our target for 2023 is to apply the principles of circularity and extend the life of 50 million products.

<sup>29</sup> For the Zalando group, after returns

<sup>30</sup> For the Zalando Fashion Store, before returns

<sup>31</sup> The Renewal Workshop, Leading Circular: Pathways for Evolving Apparel and Textile Businesses from Linear to Circular, 2021

<sup>32</sup> Ellen MacArthur Foundation, Vision of a circular economy for fashion, 2017



While we have made progress over the past year, we will not reach our 50 million target by 2023. Our ambition is high, and there is a shortage of scaled infrastructure to support circular solutions. To achieve the scale required, we need to collaborate further with brands, industry partners, and customers. Looking ahead, we will continue to build and scale our initiatives in close collaboration with partners.

**Design and manufacture:** On Earth Day 2022, we announced the launch of our first Circular Design Criteria, co-developed with our longstanding partner circular.fashion. The criteria are built on three strategies that are aligned with the Ellen MacArthur Foundation's circular design guidelines. Each of these principles break down into a number of specific sub-elements – for example, limited blending of three or fewer fiber types, or a recycler's declaration on whether the product contains mainly post-consumer or pre-consumer recycled fibers. In 2022, our private labels designed and produced about 775,000 items in line with the circular design principles, allowing us to test the criteria and encouraging a mindset shift in the design and manufacturing process.

**Use:** In 2022, we continued our care and repair services pilot with Save Your Wardrobe in Berlin. The pilot has helped us understand more about what our customers need. We learned that flexibility and convenience are important to our customers and that they also appreciate options such as zero-emissions delivery and reusable packaging.

**Reuse:** To promote reuse, we offer a Pre-owned assortment in 13 markets. The collection is growing by the day and comprises almost 500,000 Pre-owned items. All Pre-owned products are quality-checked and in like-new condition. Pre-owned orders are delivered in plastic-free packaging.

**Closing the loop:** Building on the foundations we laid with Infinited Fiber Company (IFC) and Ambercycle last year, we invested in Circ, a US-based company that has developed a technology to recycle blended cotton and polyester fabrics in a fully circular textile-to-textile recycling process. Circ's technology platform can accept a broad spectrum of materials, including cotton, polyester, and polycotton. In addition to focusing on closing the loop solutions for textiles, we have started to explore sorting and recycling solutions for footwear. We support a project launched by the innovation platform CETIA, which aims to unlock scalable technology solutions for automated shoe sorting and dismantling. In addition, we have joined a footwear recycling group run by Fashion for Good and recycler Fast Feet Grinded, which aims to support the development of footwear recycling at scale.

## People

### Increased focus on ethical standards

An important aspect of our sustainability challenge is to ensure we maintain high ethical standards, both in our own operations and those of our partners around the world. We want to guide positive action on issues such as low pay, inequality, long working hours, and working conditions. To move toward solutions, we are working to maintain an effective due diligence process, both in our own operations and across our sphere of influence. We have aligned our

efforts with the German Supply Chain Due Diligence Act<sup>33</sup>, which defines a range of requirements for responsible supply chain management.

We set ourselves the following goal: By 2023, we have continuously increased our ethical standards and only work with partners who align with them. Our human rights due diligence program supports our efforts, helping us identify and act on risks in our operations, supply chains, and business partnerships. In 2022, we validated our human rights due diligence practices against the requirements of the German Supply Chain Act and prepared for a more holistic risk management approach in 2023.

The governance of our due diligence program is grounded in our Code of Conduct and our new Policy Statement on Zalando's Human Rights Strategy, which together set out principles we aspire to. The program is built on four cyclical steps:

**1. Analyze:** Based on the learnings from risk assessments in 2021, we updated our partner risk analysis. From 2023, we plan to assess all our direct suppliers annually on human rights risks<sup>34</sup>, based on their location, industry, and our spend with them. The output will be a standardized risk profile (very high, high, moderate or low risk).

**2. Prioritize:** Based on the risk profiles, we will prioritize prevention and remediation actions, as well as define risk management plans.

**3. Manage:** Our risk management approach is focused on two dimensions: sector risk mitigation through industry-wide collaboration and supplier-specific risk management through prevention and remediation.

— **Mitigate:** To address identified sector-level risks, Zalando collaborates with other retailers or business partners and participates in industry initiatives. This includes, but is not limited to, our membership of ACT (Action, Collaboration, Transformation) to advocate for a living wage. To combat child labor, we launched a program with Save the Children<sup>35</sup> and joined the Child Rights in Business (CRIB) Working Group.

— **Prevent & Remediate:** We implement our prevention and remediation strategy through three levers: our Code of Conduct, brand self-assessment, and auditing.

*Our Code of Conduct:* Our Code of Conduct sets out binding principles for ethical, fair and sustainable practices, and is embedded in our supplier contracts. This year we launched a tracking mechanism for and plan to integrate control mechanisms into our annual risk assessments. After becoming aware of violations of our Code of Conduct or other ethical standards, we implement an appropriate Corrective Action Plan with the affected partner. If the partner fails to engage, we will pause and eventually end the relationship. In 2022,

<sup>33</sup> The German Supply Chain Act (SCA) obliges companies to respect human rights by implementing defined due diligence obligations. It applies to an enterprise's own business area, to the actions of a contractual partner (direct supplier) and – to a limited extent – to the actions of other (indirect) suppliers.

<sup>34</sup> Data from Maplecroft's Global Risk Dashboard (Grid) in the categories of: Child Labour, Decent Wages, Decent Working Time, Discrimination in the Workplace, Freedom of Association and Collective Bargaining, Healthcare Capacity, Indigenous People's Rights, Land, Property and Housing Rights, Modern Slavery, Occupational Health and Safety, Poverty, Security Forces and Human Rights, Migrant Workers, Informal Workforce, Young Workers, Women's and Girls' Rights, Right to Privacy, Minority Rights, Food Security, Water Security, Environmental Regulatory Framework, Water Pollution, Air Quality, Waste Generation, Rule of Law.

<sup>35</sup> Starting with suppliers in Bangladesh, China, India and Turkey.

eleven cases were satisfactorily remediated<sup>36</sup>, two cases led to offboarding (compared to one in 2021). Two investigations were closed because they were out of scope or no violation was confirmed (compared to four in 2021). Twelve investigations are ongoing. In total, we opened 26 new investigations into allegations of violations of our ethical standards in our supply chain (compared to six in 2021<sup>37</sup>).

**Brand self-assessment:** In 2022, we asked our strategic brand partners<sup>38</sup> to complete a self-assessment using the Sustainable Apparel Coalition's (SAC) Higg Brand & Retail Module (Higg BRM). The assessment covers both social and environmental practices. In the coming year, we will roll out a standardized self-assessment questionnaire for our direct suppliers. The questionnaire will provide insights into their due diligence processes.

**Social audits:** Our fulfillment centers, premium last mile logistics providers, customer care teams, and private label Tier 1 suppliers provide us with social audits annually or within a timeframe recommended by one of the auditing standards mentioned below. Audits are evaluated against an internal non-compliance matrix, which is based on our Code of Conduct, local legal requirements, and either our Social Standards for logistics and customer care or industry standards including SMETA (Sedex Members Ethical Trade Audit) and BSCI (Business Social Compliance Initiative) for private label suppliers.

Findings of non-compliance are classified as minor, major, critical and zero tolerance, leading to a rating and potential Corrective Action Plan. In 2022, we evaluated 302 audit reports (175 in 2021) from private label suppliers and declined to onboard four factories or suppliers (five in 2021) for not meeting audit requirements.

**4. Reporting:** We will report on our human rights due diligence in accordance with the German Supply Chain Due Diligence Act.

#### Preparing our workforce for the future

The world of work is changing fast, and many of the jobs that will be undertaken by the next generation do not yet exist. The OECD estimates that up to 1 billion people need to be reskilled by 2030 to meet demand for new skills.<sup>39</sup> In 2022, we saw a rising demand for expertise in areas such as machine learning and data science, storytelling, and resilience. We need to rise to the challenge by investing in workforce training. That is why we set ourselves the following goal: By 2023, we have supported 10,000 people in the workforce by providing skilling opportunities that match future work requirements. 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.

Since 2020, 5,016 people<sup>40</sup> received skilling training (2,243 in 2022, of which 996 in ZALANDO SE). To support our employees and those working in our supply chain in keeping pace with shifting workplace demands, we offer a range of upskilling and reskil-

<sup>36</sup> In 2021, we counted one case as remediated that was in fact at the time still ongoing. The case was subsequently remediated in 2022 and is reflected accordingly in the data.

<sup>37</sup> In 2022, we included zero-tolerance audit findings from fulfillment centers, premium last mile logistics providers and customer care for the first time. As we continue to expand and improve our due diligence processes, we expect to investigate and manage an increasing number of allegations in our supply chain.

<sup>38</sup> We define strategic brand partners based on their contribution to the total Net Merchandise Volume (NMV).

<sup>39</sup> World Economic Forum, "We need a global reskilling revolution - here's why", 2020.

<sup>40</sup> Includes ZALANDO SE and Zalando group employees and supply chain workers in private labels.

ling opportunities. Upskilling means providing additional skills to perform a role where the requirements will change. Reskilling means acquiring new skills. Our skilling programs are divided into three pillars:

- **Skilling opportunities linked to future-of-work megatrends:** We believe the future of work will be defined by six megatrends: i) Working more inclusively, ii) embracing new technologies, iii) working in new environments, iv) working more collaboratively, v) being at the forefront of innovation, and vi) working with more empathy. To prepare Zalando's employees, we foster learning opportunities focused on topics including new technologies, leading hybrid teams, and vital soft skills such as inclusivity and empathy. By the end of 2022, we ran 174 courses.
- **Skilling opportunities linked to changing business needs:** We performed a skilling needs analysis focused on changing business needs in the short- and mid-term. As a result, we have launched programs across the technology, commercial, and operations functions:
  - **Technology.** Our Women in Tech program provides an opportunity for employees from diverse backgrounds to be re-skilled for software engineering roles.
  - **Commercial.** Our Buying and Merchandising Skillhouse program offers operations specialists the opportunity to transition to buying or merchandising roles.
  - **Operations.** With the support of local chambers of commerce, we run several programs for logistic workers, including the option to obtain professional certification ("Fachkraft Lagerlogistik"). We continue to offer dedicated career path development programs.
- **Skilling opportunities linked to our upstream supply chain:** In 2022, we continued to pilot a skilling program with Shimmy Technologies and BSR's HERproject™ in our upstream supply chain in Bangladesh. We trained around 800 people in digital literacy, efficiency training, gender equality, financial literacy, workplace communication, and health and wellbeing.

### Being part of the solution

Our Corporate Citizenship program aims to facilitate real world solutions in line with three objectives: a social impact position in Europe, good collaboration with communities in our fulfillment and supply chain, and a willingness to engage, enable and work with our customers to deliver positive change.

In response to Russia's invasion of the Ukraine, we have tried to make a contribution to the humanitarian response. We donated funds and in-kind support to those impacted by the war. Zalando, alongside our employees and customers, contributed nearly EUR 1.5m to support humanitarian relief for those impacted by the war and projects supporting Ukrainians in Germany, alongside EUR 255,000 worth of in-kind donations. We have made direct contributions to Polish Humanitarian Action, which provides humanitarian aid including food and other forms of support to refugees fleeing to Poland. We also donated to our NGO partners, namely Red Cross, humedica as well as Save the Children, and matched donations from Zalando employees and customers in 2022.

We helped to fund an SOS Children's Villages worldwide program: A Right to Family – De-Institutionalization to Reform the Child Protection System. The program aims to protect children's rights and supports the reform of alternative childcare systems and the de-institutionalization process in the Ukraine. In principle, de-institutionalization comprises two processes: A negotiation process with the government about what de-institutionalization means, followed by the implementation process. Our funding of more than EUR 275,000 covers the project until April 2025.

In addition to in-kind and financial donations, Zalando has supported our local community in Berlin, sponsoring the Ukrainian Pop-Up Charity Market SKRYNYA, organized by Zalando volunteers, the European Academy of Berlin and the many supporters and friends of the Ukraine. The SKRYNYA sponsorship supports Ukrainian creatives, including fashion, jewelry, and home brands. The event took place in July and October. Over 3,000 people visited the events, and more than 50 brands from the Ukraine took part at the event.

**Creating the next generation of fashion designers.** In 2022, we launched The Design Academy to bring social and economic development into our communities. The program offers training, education, technology and collaboration in sustainable fashion. The academy's mission is to grow knowledge, skills and resources in circular and sustainable fashion, creating social and economic opportunities and solutions to end fast fashion.

In October 2022, we launched our first Design Academy pilot with our partners VORN – The Berlin Fashion Hub, Unity, and Kornit Digital. Through our sponsorship, ten designers received training on the principles of circular and sustainable fashion, digital creation, and interaction design. The resulting designs will be showcased at Berlin Fashion Week 2023. In 2023, we plan to roll out the program across Europe.

**Completing our work on refugee migration in Europe.** We completed our collaboration with our partner Ashoka on our 2015 initiative Hello Europe. This collaboration launched an accelerator program, aiming to transform the field of migration through a collaborative framework. The program involved over 130 leaders from 23 countries representing social innovation, government, policy, corporate, academia, and social sectors.

**Community investment and volunteering.** We support our employees with two volunteering days per year and offer them skill-based volunteering opportunities. The selection of partners and projects is based on our communities' needs and Zalando areas of expertise to ensure we drive meaningful impact.

Since 2015, our partner for corporate volunteering is [vostel.de](#). In 2022, 772 Zalando employees supported 71 projects through 3,381 hours of volunteering. Due to the war in the Ukraine, we worked with [vostel.de](#) especially to offer Zalando volunteering opportunities focused on supporting people affected by the war. For example, Zalando employees volunteered on projects in online mentoring for job search and integration in Germany as well as packaging and distributing food for new arrivals.

We donated almost EUR 150,000 to our various community investment programs throughout Europe, such as Sport for Change.

## Reporting on the EU Taxonomy Regulation

With the Action Plan on Financing Sustainable Growth published in 2018, the European Commission set the objective to redirect capital flows towards sustainable investment. In this context, a standardized classification system – the EU Taxonomy – was established to define criteria classifying economic activities as being environmentally sustainable. Companies subject to the Non-Financial Reporting Directive (Directive 2014/95/EU) are required to report in line with the EU Taxonomy Regulation (Regulation (EU) 2020/852). According to Article 8 of the regulation, companies have to extend their non-financial disclosures by reporting on how and to what extent the company's activities are associated with economic activities that qualify as environmentally sustainable.

For fiscal year 2021, we reported on the eligibility of economic activities according to the EU Taxonomy Regulation and the corresponding Delegated Acts. Based on our assessment, we identified one material Taxonomy-eligible economic activity within the Zalando group related to the leasing of assets covering our office buildings and warehouses (economic activity 7.7 listed in Annex I of the Climate Delegated Act). For this activity, we reported Taxonomy-eligible capital expenditure (capex) related to the additions to our lease assets from right-of-use assets in 2021 in the amount of EUR 189.7m which represented 35.8% of all additions to right-of-use assets, property, plant & equipment and intangible assets in 2021 according to the definition of the denominator for capital expenditure. Further, we have not identified any additional material capital expenditure (capex) nor Taxonomy-related turnover or operating expenditure (opex) according to Annex I of the Delegated Act.

In this second reporting year, we expand our reporting scope by reporting on Taxonomy-eligible as well as Taxonomy-aligned activities within the Zalando group for fiscal year 2022. According to Article 8 of the Taxonomy Regulation, reporting companies have to disclose the proportion of the company's turnover, capital expenditure (capex) and operating expenditure (opex) for both Taxonomy-eligible and Taxonomy-aligned economic activities. In order to be deemed as Taxonomy-aligned, a Taxonomy-eligible economic activity has to fulfill the following criteria as defined in Article 3 of the Taxonomy Regulation. The economic activity:

- contributes substantially to one or more of the environmental objectives set out in Article 9 in accordance with Articles 10 to 16;
- does not significantly harm any of the environmental objectives set out in Article 9 in accordance with Article 17;
- is carried out in compliance with minimum safeguards laid down in Article 18; and
- complies with technical screening criteria in accordance with Article 10(3), 11(3), 12(2), 13(2), 14(2) or 15(2).

Our approach of assessing economic activities under the Taxonomy Regulation for fiscal year 2022 is explained in more detail below.

### Our approach

For our reporting in fiscal year 2022, we have reviewed our prior years' assessment of economic activities as defined in Annex I and Annex II of the Climate Delegated Act. This review has not resulted in a change of our previously identified material Taxonomy-eligible economic activities, hence we still only report on capital expenditure (capex) related to the leasing of our buildings and corresponding operating expenditure (opex) (economic activity 7.7 listed in Annex I of the Climate Delegated Act). We have also calculated total value of operating expenditure (opex) which includes non-capitalized development costs, costs for short-term leases, costs for maintenance and repair as well as costs of day-to-day-servicing of assets.

In fiscal year 2022, Zalando has expanded the number of its leased buildings which led to additions to right-of-use assets of EUR 186.3m. This roughly corresponds to the amount of additions in the prior year. This is material from the group's perspective, and should therefore be reported as Taxonomy-eligible capital expenditure (capex). The additions are related to our new office building and outlet store in Germany as well as two new logistics sites in Poland. This amount also includes additions of EUR 7.8m related to the acquisition of Highsnobiety. Total capital expenditure (capex) for fiscal year 2022 amount to EUR 759.1m. This corresponds to additions disclosed in the notes to the consolidated financial statements under [3.5.7 \(11.\) Intangible assets](#), [3.5.7 \(12.\) Property, plant and equipment](#) and [3.5.7 \(13.\) Right-of-use assets and lease liabilities](#).

For our leased buildings we have calculated operating expenditure (opex) of EUR 10.3m for fiscal year 2022 which is related to maintenance and repair as well as day-to-day servicing of those assets. As in the prior year, we have not identified any additional material capital expenditure (capex), operating expenditure (opex) or Taxonomy-related turnover. Hence, turnover disclosed for Taxonomy-non-eligible activities equals total revenue disclosed in the notes to the consolidated financial statements for the Group according to IAS 1.82(a) (see [3.5.7 \(1.\) Revenue](#)).

Zalando has allocated the calculated capital expenditure (capex) and operating expenditure (opex) only to the environmental objective of climate change mitigation. In addition, only one economic activity was identified for which capital expenditure (capex) and operating expenditure (opex) were calculated. This avoided any double counting.

In addition to the prior year's reporting on capital expenditure (capex) related to Taxonomy-eligible economic activities, we this year also assessed which proportion of this capital expenditure (capex) qualifies as environmentally sustainable and is therefore reported as capital expenditure (capex) related to Taxonomy-aligned economic activities. This assessment was based on the criteria laid down in Article 3 of the Taxonomy Regulation. Because this capital expenditure (capex) is only related to the purchase of output, Zalando does not have all the necessary information to perform the assessment. Therefore, Zalando is dependent on the information regarding the fulfillment of the technical screening criteria provided by external parties, for example the lessors of the buildings.

In a step-wise approach, we first prepared a detailed table including all required evidence to meet the criteria for Taxonomy-alignment. In the following, we reached out to external parties to request the evidence as needed. Despite our efforts, the external parties involved were not able to provide us with sufficient evidence to comply with all criteria laid down in Article 3 of the EU Taxonomy Regulation. As a result, we were not able to qualify Taxonomy-eligible capital expenditure (capex) related to the leasing of our buildings as Taxonomy-aligned capital expenditure (capex) for fiscal year 2022. Further, we were not able to qualify any Taxonomy-aligned turnover or operating expenditure (opex).

#### **Outlook on future reporting**

Our reporting approach for fiscal year 2022 reflects the current legislative status of the Taxonomy Regulation. In this second reporting year, we acknowledge that required evidence for qualifying capital expenditure (capex), operating expenditure (opex) or turnover as Taxonomy-aligned is not available at all third parties yet. In collaboration with external parties, we aim at closing the existing information data gaps in the coming reporting years.

Zalando expects that the Environmental Delegated Act covering the four remaining objectives of the Taxonomy Regulation will be published in the course of 2023. We continue monitoring further developments of the regulation and will respond to additional specifications of the regulation in coming reporting periods. We expect our reporting scope to increase based on future publications related to environmental objectives 3-6 as well as related economic activities and will adapt our reporting approach accordingly.



Proportion of Capex from products or services associated with Taxonomy-aligned economic activities

Economic activities	Code(s)	Absolute Capex (EUR)	Proportion of Capex (%)	Substantial contribution criteria					
				Climate change mitigation (%)	Climate change adaptation (%)	Water and marine resources (%)	Circular economy (%)	Pollution (%)	Biodiversity and ecosystems (%)
<b>A. Eligible Activities</b>									
<b>A.1 Environmentally sustainable activities (Taxonomy-aligned)</b>									
Capex of environmentally sustainable activities (Taxonomy-aligned) (A.1)		0	—						
<b>A.2 Taxonomy-eligible but not environmentally sustainable activities (not Taxonomy-aligned activities)</b>									
Acquisition and ownership of buildings	7.7	186.3m	25						
Capex of Taxonomy-eligible but not environmentally sustainable activities (not Taxonomy-aligned activities)		186.3m	25						
<b>Total (A.1 + A.2)</b>		<b>186.3m</b>	<b>25</b>						
<b>B. Taxonomy-non-eligible Activities</b>									
Capex of Taxonomy-non-eligible activities (B)		572.8m	75						
<b>Total (A + B)</b>		<b>759.1m</b>	<b>100</b>						

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**DNSH criteria ('Does Not Significantly Harm')**

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<b>Climate change mitigation (Y/N)</b>	<b>Climate change adaptation (Y/N)</b>	<b>Water and marine resources (Y/N)</b>	<b>Circular economy (Y/N)</b>	<b>Pollution (Y/N)</b>	<b>Biodiversity and eco-systems (Y/N)</b>	<b>Minimum safeguards (Y/N)</b>	<b>Taxonomy-aligned proportion of Capex, year NET (2022)</b>	<b>Category (enabling or transitional activity)</b>

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## Proportion of Opex from products or services associated with Taxonomy-aligned economic activities

Economic activities	Code(s)	Absolute Opex (EUR)	Proportion of Opex (%)	Substantial contribution criteria					
				Climate change mitigation (%)	Climate change adaptation (%)	Water and marine resources (%)	Circular economy (%)	Pollution (%)	Biodiversity and ecosystems (%)
<b>A. Eligible Activities</b>									
<b>A.1 Environmentally sustainable activities (Taxonomy-aligned)</b>									
Opex of environmentally sustainable activities (Taxonomy-aligned)		0	—						
<b>A.2 Taxonomy-eligible but not environmentally sustainable activities (not Taxonomy-aligned activities)</b>									
Acquisition and ownership of buildings	7.7	10.3m	6						
Opex of Taxonomy-eligible but not environmentally sustainable activities (not Taxonomy-aligned activities)		10.3m	6						
<b>Total (A.1 + A.2)</b>		<b>10.3m</b>	<b>6</b>						
<b>B. Taxonomy-non-eligible activities</b>									
Opex of Taxonomy-non-eligible activities (B)		156.3m	94						
<b>Total (A + B)</b>		<b>166.6m</b>	<b>100</b>						

DNSH criteria ('Does Not Significantly Harm')

Climate change mitigation (Y/N)	Climate change adaptation (Y/N)	Water and marine resources (Y/N)	Circular economy (Y/N)	Pollution (Y/N)	Biodiversity and ecosystems (Y/N)	Minimum safeguards (Y/N)	Taxonomy-aligned proportion of Opex, year NET (2022)	Category (enabling or transitional activity)

Proportion of turnover from products or services associated with Taxonomy-aligned economic activities

Economic activities	Code(s)	Absolute turnover (EUR)	Proportion of turnover (%)	Substantial contribution criteria					
				Climate change mitigation (%)	Climate change adaptation (%)	Water and marine resources (%)	Circular economy (%)	Pollution (%)	Biodiversity and ecosystems (%)
<b>A. Eligible Activities</b>									
<b>A.1 Environmentally sustainable activities (Taxonomy-aligned)</b>									
Turnover of environmentally sustainable activities (Taxonomy-aligned)		0	—						
<b>A.2 Taxonomy-eligible but not environmentally sustainable activities (not Taxonomy-aligned activities)</b>									
Turnover of Taxonomy-eligible but not environmentally sustainable activities (not Taxonomy-aligned activities)		0	—						
<b>Total (A.1 + A.2)</b>		<b>0</b>	<b>—</b>						
<b>B. Taxonomy-non-eligible activities</b>									
Turnover of Taxonomy-non-eligible activities (B)		10,345m	100						
<b>Total (A + B)</b>		<b>10,345m</b>	<b>100</b>						

**DNSH criteria ('Does Not Significantly Harm')**

Climate change mitigation (Y/N)	Climate change adaptation (Y/N)	Water and marine resources (Y/N)	Circular economy (Y/N)	Pollution (Y/N)	Biodiversity and eco-systems (Y/N)	Minimum safeguards (Y/N)	Taxonomy-aligned proportion of turnover, year NET (2022)	Category (enabling or transitional activity)

Berlin, March 6, 2023

Robert Gentz                  David Schneider                  James M. Freeman, II

David Schröder                  Dr. Astrid Arndt                  Dr. Sandra Dembeck