



# **SUSTAINABILITY** **REPORT 2017**

**DeFacto**



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## ABOUT THE REPORT

As DeFacto, we operate with the vision to become a global fashion brand, and we promise first to ourselves and to our stakeholders that we will support sustainable development both in Turkey and all our operational geographies. We shape our operations in line with this commitment and we present our achievements to our stakeholders through the sustainability reports.

This is the third sustainability report we have published, covering the impacts of our activities on environmental, social, ethical and economic areas, conducted between January 1, 2017 and December 31, 2017 as well as our approach to manage these impacts. We included the operations of DeFacto and Ozon Textiles in Turkey, and the performance data of headquarters, factory, warehouse and stores. We covered the information on our operations outside of Turkey to better reflect the whole company in terms of content and so that data obtained conform to equivalent quality standards.

This report has been prepared in accordance with the GRI Standards: "Core" option. On the other hand, we included in the report the principles of UN Global Compact, of which we are a signatory party. In order to identify the content of this report, we conducted a materiality study in line with the principles proposed by the GRI Standards.

DeFacto Sustainability Report 2017 and the reports of previous years are available on our corporate website. You may reach us through [sustainability@defacto.com.tr](mailto:sustainability@defacto.com.tr) e-mail address for your recommendations, comments and questions concerning our sustainability performance and practices.



# MESSAGE FROM CEO

WE CONTINUED TO GROW IN 2017 BY ADDING NEW ACHIEVEMENTS TO OUR SUCCESS STORY. IN THE CURRENT REPORTING PERIOD, WE BROUGHT OUR PRODUCTS TO **265 MILLION** CUSTOMERS AT **447** STORES IN **22** COUNTRIES. IN THE LAST **7 YEARS**, WE INCREASED OUR SALES BY **8 FOLDS** REACHING **2.65 BILLION TL**.

Dear Stakeholders,

At DeFacto, we are happy to leave behind the reporting period in this voyage we began to make the latest fashion trends more accessible to larger masses in the society. We successfully continue our journey to be a global fashion brand thanks to our products appreciated by our customers and our agile business model that promptly responds to changing market conditions. In this regard, we continued to grow in 2017 by adding new achievements to our success story. In the current reporting period, we brought our products to 265 million customers at 447 stores in 22 countries. In the last 7 years, we increased our sales by 8 folds reaching 2.65 billion TL.

Our products that create high level appreciation and trust in regards to quality and prices and the excellent customer experience we promise form the infrastructure of the success we achieved. Moreover, the responsibility approach we pay attention to in all our products and activity processes is among the key elements of this success. Thanks to this approach, we not only reduce the social, environmental and economic impacts of our activities, but continue to create sustainable value for our stakeholders as well.

We have two fundamental motivations in positioning sustainability in the main axis of our activities:

1. To integrate the concept of "being a global brand that sets examples of correctness" into the company culture,
2. To develop a strategic perspective to convert those seen as risks in our industry and that may emerge in all our activities ranging from supply chain to product and service processes into opportunities.

We shape the whole business model based on this perspective. In addition, we believe that, by revealing the potential of creating sustainable value, we will continue our stable growth trend, and we think that these will support sustainable development in societies we operate in. As an indication of this belief, we became one of the supporters of UN Global Compact Initiative in the first place, followed by Women's Empowerment Principles. We are keen on sustaining this support both during and after the reporting period. In 2017, we worked on determining the points in which we can give support to Sustainable Development Goals via DeFacto activities in order to shift this support to a higher level. We aim to obtain positive results in these

areas through the studies we will put into practice in the following periods.

For environmental aspects, one of the main axes of our sustainability studies, we act with precision in all our processes from design to sales at cash point; thus, we obtained significant results throughout the year. For example, we mitigated our carbon footprint by reducing energy consumption per m<sup>2</sup> in stores by 7%. Through studies on reuse of packaging wastes, we recovered 1,297 tons cardboards and 259 tons of packaging wastes. In 2017, we managed to cut back water consumption by 20% per employee in the headquarters in Istanbul. Based on this, we reduced the annual water consumption per person in 2017 to 13.82 m<sup>3</sup> which was 17.42 m<sup>3</sup> in 2016.

Moreover, we care a lot about human health in all product groups in the categories including women, men, children, baby and accessories designed according to global fashion trends. We continued to offer commercially successful products appreciated by customers. And they are more environmentally-friendly in regards to materials used such as organic cotton and recovered fabric clips. In 2017, we used 100% organic cotton in approximately 1 million products. In 2016, the sales of organic cotton products rose to

105,000 pieces which was 65,000 pieces in 2015, and rose by tenfold to 965,000 pieces in 2017.

We sped up the performance-improving studies for our suppliers with a perspective to manage sustainable risks at supply chain in general. In this context, supplier audits conducted in regard to environment, quality and especially social compliance and the development plans prepared as a result of these audits are crucial. In 2017, in terms of quality, we improved suppliers' rate of approval at first audit by 6% thanks to the studies we conducted. Our social compliance teams initiated subcontractor audits during the year and conducted audits at 166 subcontractors.

Human resources are critical for us as we operate in a labor-intensive

industry based on creativity. Thus, we offer an inclusive, egalitarian, development-oriented and safe work environment. In this regard, it has been a source of pride for us to share our "Happy Women Movement" project, as an example to the others at a UN meeting back in 2017. The project was initiated in previous years. We also continued training studies to improve performance in occupational safety which is an issue of top priority in sustainability.

In the reporting period, we continued to voluntarily support sustainable development studies conducted in societies we operate in. In 2017, DeFacto Happiness Ambassadors organized 8 events by working voluntarily for 1,687 hours.

Our target is to support the efforts of people in the world to have a

safe, happy and prosperous future. While doing this, we aim to secure sustainable growth in which possible social, environmental and economic risks to our activities are eliminated.

We will continue our activities with a dynamic and entrepreneur spirit, an innovative perspective and a transparent management approach. Hereby, once again, I would like to thank primarily to our consumers who have appreciated and preferred our products from the very first day, to employees who work selflessly in turning their labor into value and to all business partners.

Kind regards,

**İhsan Ateş**  
CEO





# SUSTAINABILITY GOALS TABLES

## OCCUPATIONAL HEALTH AND SAFETY

### 2017 GOALS

- » (Ongoing) To establish software infrastructure that will increase the efficiency of OHS processes
- ✓ We will audit and guide our contractors who offer service in construction and technical works via an eligible OSGB company, which we partnered with.

## STRATEGY AND GOVERNANCE

### 2017 GOALS

- ✓ 0 Case of legal unconformity
- ✓ To organize trainings on anti-corruption and ethics for employees

### 2018 GOALS

- 0 Case of legal unconformity

## SUSTAINABILITY IN SUPPLY CHAIN

### 2017 GOALS

- ⬆ (6% increase) To increase suppliers' rate of approval at first audit by 5% compared to 2016
- To perform audits on 150 subcontractors in 2017
- To perform regular audits for apparel subcontractors on their first subscription to the system

### 2018 GOALS

- To increase suppliers' rate of approval at first audit by 10% compared to 2017
- To perform audits on 400 subcontractors
- To improve performances of 80 suppliers
- To create subcontractor performance map
- To organize trainings on social compliance and ecologic values for employees of local strategic suppliers
- To include all strategic fabric manufacturers to the audit process till the end of 2019

## EMPLOYEES

### 2017 GOALS

- ✓ We will activate "Instant HR" application.
- » (Ongoing) We will increase communication with female solidarity associations and elaborate on new project we can develop.
- ✓ We will initiate an online English training program for all employees working domestically or abroad.
- ✓ We will continue to organize English courses for managers and senior employees working in the Headquarters.
- ✓ We will establish a platform for achievement award system.
- ✓ We will create talent pools by interpreting potential evaluations based on leadership talents of employees together with their performance evaluations.
- ✓ We will set up backups for critical positions.

### 2018 GOALS

- To execute Global Retailing career journey program
- To globalize and standardize selection and evaluation tools
- Retailing training school will be launched.

## PRODUCT RESPONSIBILITY

### 2017 GOALS

- ✓ We will update safety guidelines for children products and share it with our suppliers.
- » (Ongoing) We will elaborate on the options of collaborating with the Better Cotton Initiative.
- ✓ To make products manufactured of organic cotton available in stores throughout the year

### 2018 GOALS

- To increase the share of products made of organic cotton in total products by 5% compared to 2017

## ENVIRONMENT

### 2017 GOALS

- ✓ To exchange all lighting systems in the General Directorate building with LED armatures.

### 2018 GOALS

- All lightings in the dining hall will be replaced with LEDs.
- The efficiency in air-conditioning plant will be increased by 15% through a project conducted in this plant.
- To decrease hanger varieties in the stores by 50%
- To decrease product dummy alternatives in the stores by 60%
- To save paper by 40% by decreasing and standardizing the dimensions of visual materials in the stores
- To decrease electric consumption per m<sup>2</sup> in the stores in Turkey by 5% compared to the previous year
- To decrease packaging wastes in the stores by 10%
- To decrease waste paper weight per employee by 10%
- Energy audit work will be conducted under energy efficiency project for the headquarters and the Çerkezköy warehouse.





# STRATEGY AND GOVERNANCE

Highlights of 2017



DeFacto Sustainability Priorities were revised.



UN Sustainable Development Goals were prioritized by taking DeFacto operations into consideration.

Related Sustainable Development Goals

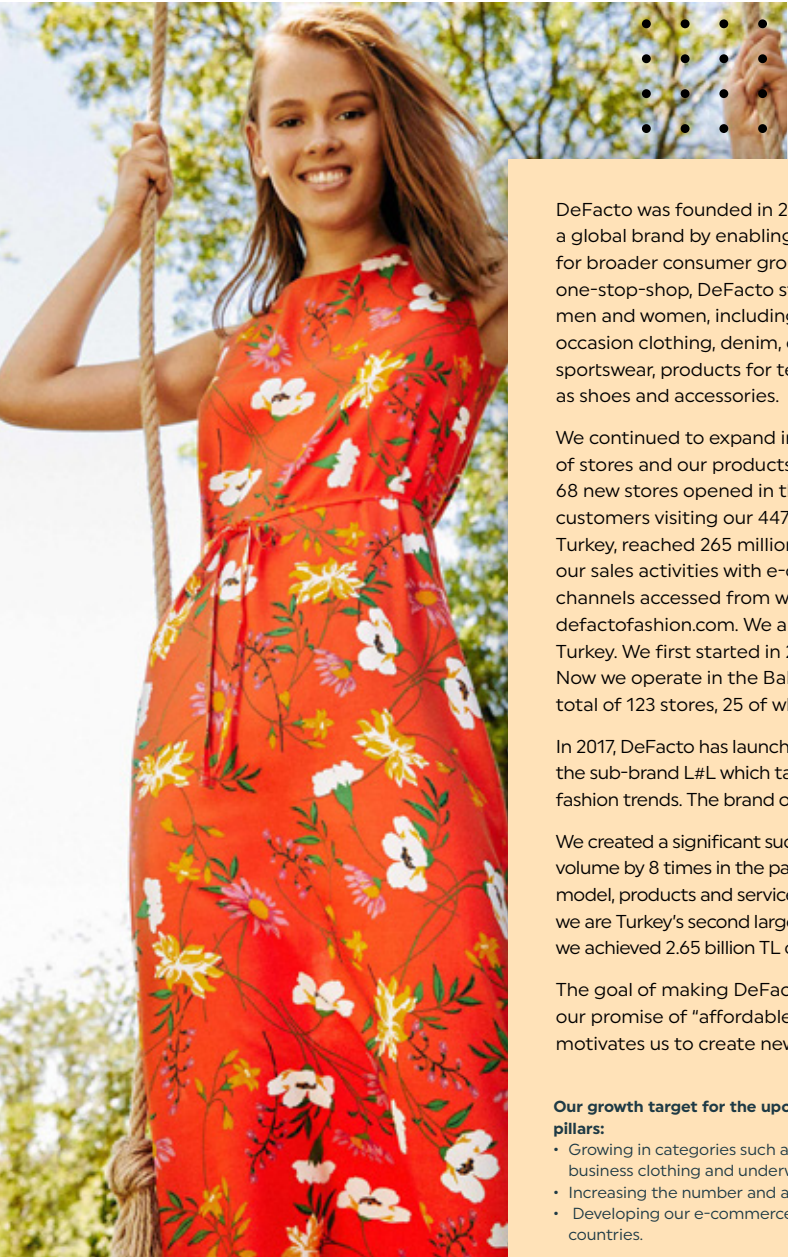
8 DECENT WORK AND ECONOMIC GROWTH

16 PEACE, JUSTICE AND STRONG INSTITUTIONS

17 PARTNERSHIPS FOR THE GOALS



DeFacto from Past to Present



DeFacto was founded in 2004 with the vision of becoming a global brand by enabling the accessibility to fashion for broader consumer groups. Offering the concept of one-stop-shop, DeFacto stores present collections for men and women, including casual, business and special occasion clothing, denim, outerwear, maternity clothing and sportswear, products for teens, children and babies, as well as shoes and accessories.

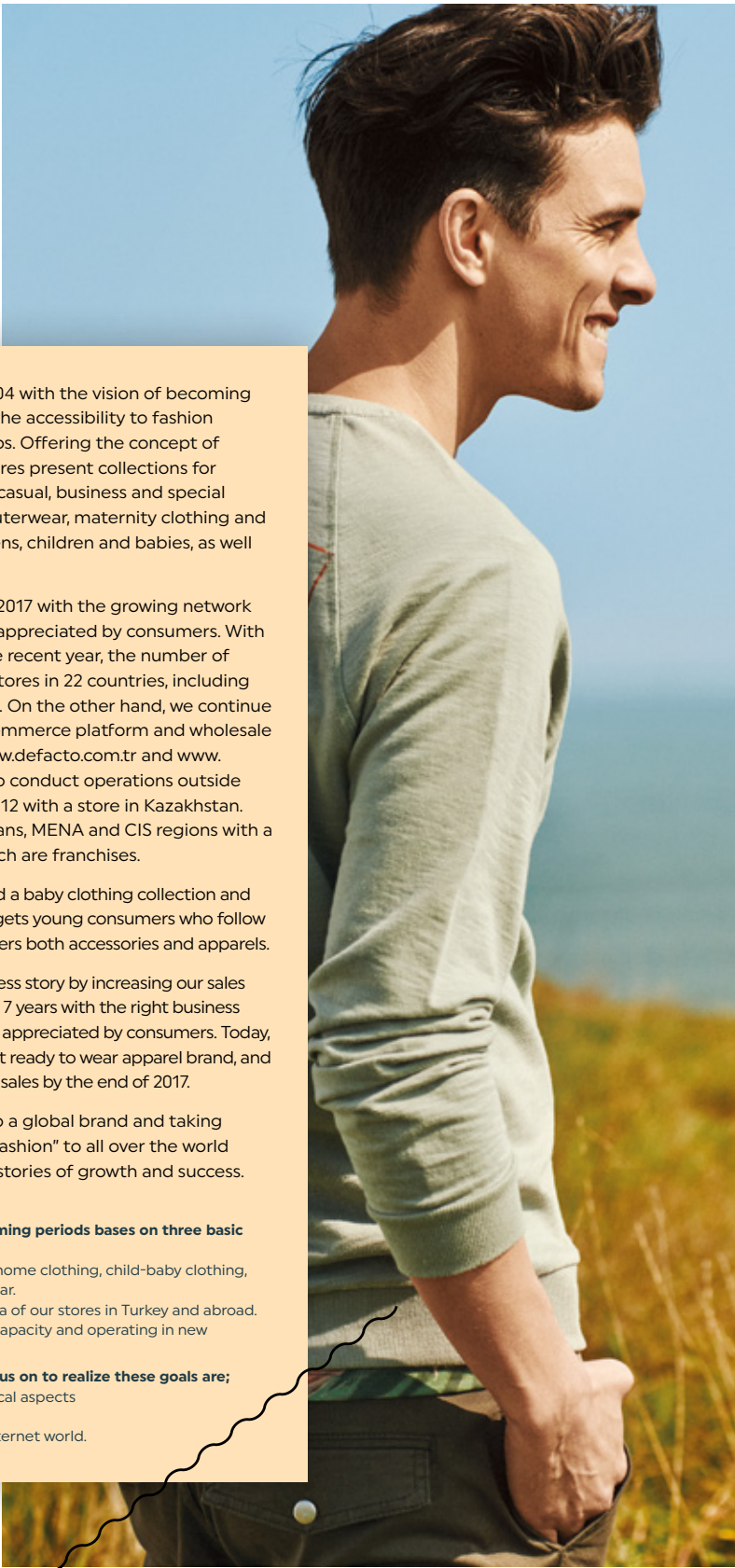
We continued to expand in 2017 with the growing network of stores and our products, appreciated by consumers. With 68 new stores opened in the recent year, the number of customers visiting our 447 stores in 22 countries, including Turkey, reached 265 millions. On the other hand, we continue our sales activities with e-commerce platform and wholesale channels accessed from [www.defacto.com.tr](http://www.defacto.com.tr) and [www.defactofashion.com](http://www.defactofashion.com). We also conduct operations outside Turkey. We first started in 2012 with a store in Kazakhstan. Now we operate in the Balkans, MENA and CIS regions with a total of 123 stores, 25 of which are franchises.

In 2017, DeFacto has launched a baby clothing collection and the sub-brand L#L which targets young consumers who follow fashion trends. The brand offers both accessories and apparels.

We created a significant success story by increasing our sales volume by 8 times in the past 7 years with the right business model, products and services appreciated by consumers. Today, we are Turkey's second largest ready to wear apparel brand, and we achieved 2.65 billion TL of sales by the end of 2017.

The goal of making DeFacto a global brand and taking our promise of "affordable fashion" to all over the world motivates us to create new stories of growth and success.

- Our growth target for the upcoming periods bases on three basic pillars:**
- Growing in categories such as home clothing, child-baby clothing, business clothing and underwear.
  - Increasing the number and area of our stores in Turkey and abroad.
  - Developing our e-commerce capacity and operating in new countries.
- The three main areas we will focus on to realize these goals are;**
- Globalization that adapts to local aspects
  - Digitization in operations
  - Customer orientation in the Internet world.



Our Vision, Mission and Values

Our Vision

We will be a global fashion brand creating a "WOW" effect.

Our Mission

We make "luxury" accessible to create happiness.

Our Values

- We think different, run hard
- We stay close to our customers
- We achieve more with less
- We proceed shoulder to shoulder and work with passion
- We care about environment and humans.



We carry out our production activities through Ozon Textiles, wholly owned subsidiary of DeFacto. Ozone Textile is the largest supplier of DeFacto, producing 36% of DeFacto products on a piece basis. To create DeFacto's production base, the first production facility was established in Sivas in 2005, followed by the knitwear factory established in Batman in 2015 and the new ready to wear facility established in 2016 alongside the Sivas factory. Today Ozone Textile continues its activities with 330 subcontractors.

Today, Ozon Tekstil has moved far beyond supporting DeFacto operations and extended its export activities. It started the export business with knitwear products in 2014, working for brands, including Primark, Tally Weijl, Promod, River Island, Tesco, JCPenney and American Eagle. Ozon Textiles, which carries out approximately 90% of the cutting, sewing, dyeing, printing, embroidery and ironing-packaging processes in an integrated system at Sivas Plant, increased its production volume in 2017 to 40.7 million pieces of products. Ozon Tekstil, which is included among the fastest growing industrial companies of Turkey, ranked 360<sup>th</sup> in Istanbul Chamber of Industry's 500 largest industrial organizations of Turkey listing for 2017.



# DEFACTO IN FIGURES

NUMBER OF  
EMPLOYEES

**11,496**

SALES AREA

**331,000 m<sup>2</sup>**

NUMBER OF  
Ready to wear  
APPAREL SUPPLIERS

**210**

NUMBER OF  
ANNUAL STORE  
VISITORS

**265 million**

NUMBER OF NEW  
STORES OPENED  
IN 2017

**68<sup>2</sup>**

NUMBER OF  
COUNTRIES WHERE  
WE HAVE SUPPLIERS

**12**

NUMBER OF  
COUNTRIES WHERE  
WE HAVE STORE

**22<sup>1</sup>**

NUMBER  
OF DOMESTIC  
STORES

**324**

NUMBER  
OF OVERSEAS  
STORES

**98**

FRANCHISE  
STORES

**25**

Number Of New  
Products Entering  
The Stores Daily:

**140 new  
products**

NUMBER OF  
PRODUCTS SOLD  
ANNUALLY

**103 million**

INVESTMENT

**167 million TL**

SALES

**2.65 billion TL**

EQUITY CAPITAL

**53 million TL**

OPERATING PROFIT

**200 million TL**

AMOUNT OF  
ACCRUED TAX

**12 million TL**

## OZON TEXTILES IN FIGURES

NUMBER OF  
EMPLOYEES

**855**

NUMBER OF  
SUBCONTRACTORS

**329**

**2017  
Total Sales:  
433 million  
TL**

NUMBER OF  
FACTORIES

**3**

2017 TOTAL  
PRODUCTION QUANTITY

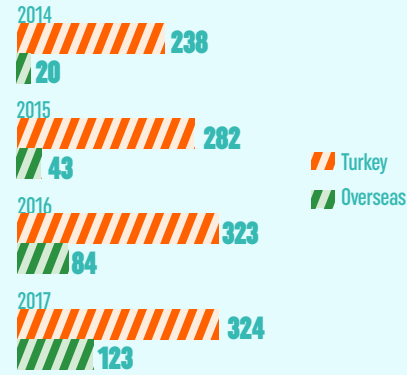
**40.7 million**

<sup>1</sup>Franchise stores included.  
<sup>2</sup>Franchise stores included.

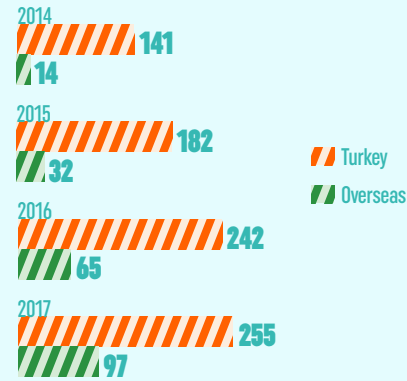
\* All the data are valid as of December 31,  
2017. Financial data and employee numbers  
are consolidated data. All other data comprise  
DeFacto and Ozon Textiles, franchise and dealer  
data are not included.



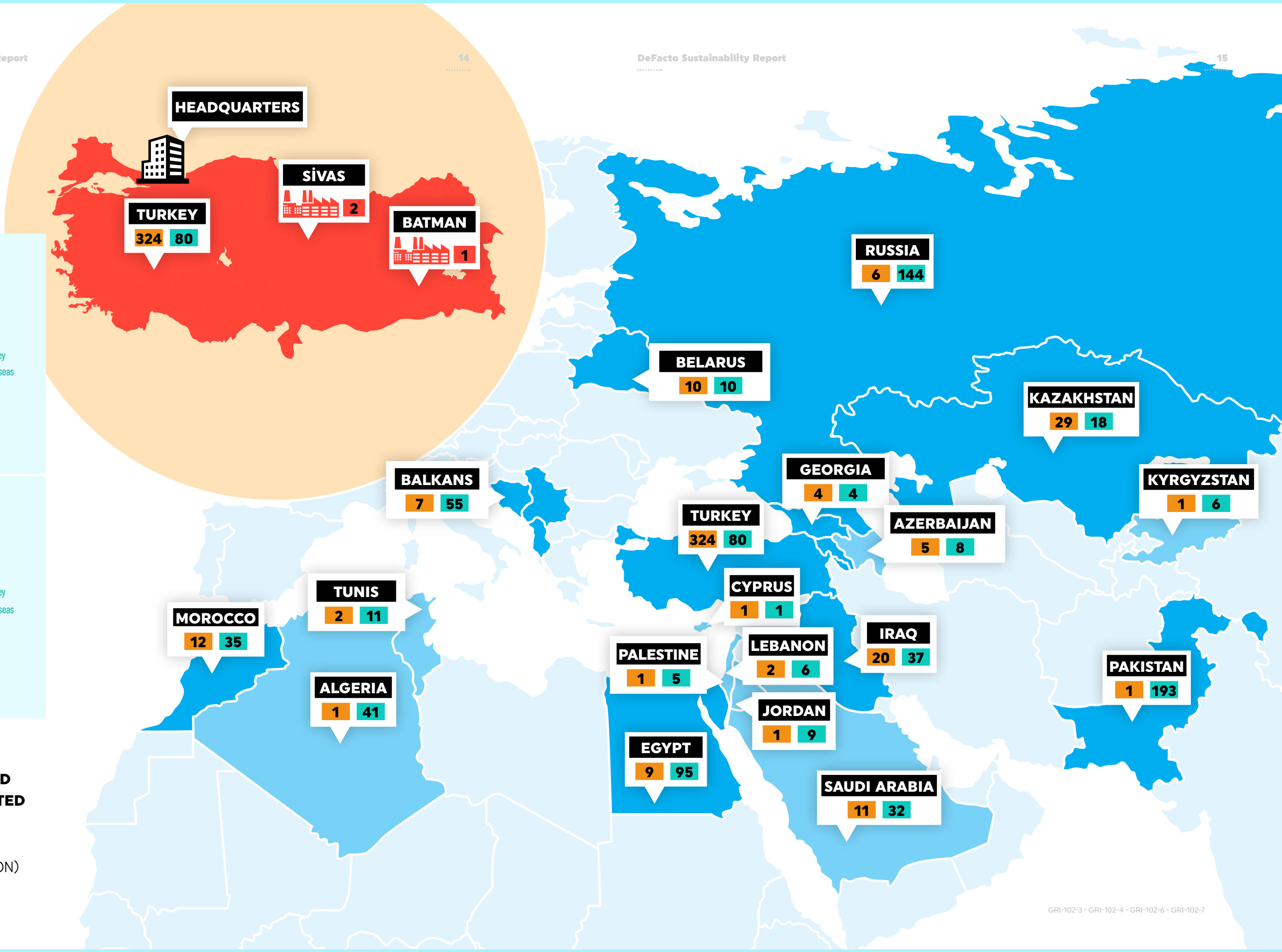
NUMBER OF STORES



Net Sales Area (1,000 m<sup>2</sup>)



- DIRECTLY OPERATED
- FRANCHISE OPERATED
- FACTORIES
- STORES (NUMBER)
- POPULATION (MILLION)





CORPORATE GOVERNANCE

In parallel with the operational growth we accomplished in the short period of time since our company was founded, we also started to work on developing an advanced governance model as a result of the need to establish a decision making organization to support this growth. We developed mechanisms that will support our goal of creating value for our stakeholders from the board of directors to operations, in line with our understanding of corporate governance structured in parallel with internationally accepted principles.

DeFacto Board of Directors is composed of six members, and the CEO reports to the Board. The CEO, responsible for execution, is appointed by the Board of Directors and is responsible for conducting the strategies set by the Board of Directors. This task is carried out by the senior management team reporting to the CEO.

The Board of Directors is also responsible for the sustainability performance, which includes social, environmental, economic and ethical issues. While the Board determines the strategic approaches in these areas, sustainability practices are carried out by different units.

RISK MANAGEMENT

We believe that uninterrupted continuity of DeFacto's existence and operations will be possible with the reduction of the costs of potential losses, stability of its turnover and profitability, sustainable growth, fulfillment of corporate social responsibilities, compliance with legal regulations and correct management of all types of risks it is exposed to within the sector in line with corporate strategies.

With the Corporate Risk Management System established with this approach, the critical indicators of risks and actions are monitored by the Risk Management and Compliance Team and they are periodically reported to the Board of Directors. Strategic, financial, operational, compliance, reputation, information security and business continuity risks are also assessed within the scope of Risk Management, in addition to potential opportunities and threats. It is aimed at providing data to decision-making mechanism of DeFacto directly. Within the framework of the risk management system, non-financial risk factors such as social, environmental, economic and ethical risks as well as traditional risk points are also monitored.

One of the fundamental principles of corporate governance is legal compliance. Compliance management is intended to ensure quick adaptations to legislation changes, to provide an application standard related with the internal regulations of DeFacto, and to provide a basis for the proactive management of compliance risks. The Risk Management and Compliance Team undertake compliance proceedings by collecting DeFacto's legal requirements and sanctions on an inventory for both domestic and international operations.

BUSINESS CONTINUITY

We address the business continuity as a part of corporate risk management. Within this context, we identify threats that would prevent the persistence of customer satisfaction and the continuity of the operations, and we implement actions that will minimize or eliminate such threats. Through the Business Continuity Management System we have designed and implemented in line with the ISO 22301 Standard, we aim:

- First of all, to ensure the safety of the "human" we see as the most valuable resource,
- To determine and test possible emergency scenarios to ensure the continuity of critical processes,
- To reinforce our cooperation with our suppliers and reduce service interruption risks,
- To restore business and information technology processes interrupted by potential crises with minimal losses,
- To assure the continuity of information systems by information security policies and provide these from emergency centers.

PROJECT AND PROCESS MANAGEMENT

Expanding the culture of management by processes is one of the fundamental steps we have taken in the direction of operational excellence. For this purpose we have adopted a flexible and adaptable methodology on a project basis by combining project management methodology and process improvement techniques.

The Project and Process Development team came together with over 250 people in order to expand the culture of process management within the organization. During these meetings, process literacy is increased, and corporate improvement points studied. For a process transformation in product management, roles and responsibilities of 350 activities and main missions and responsibilities for 30 basic roles were determined.

Within the framework of project management and communication practices, we also revised the process improvement methodology by developing a new structure. As of the end of 2017, we made 40 quick-win and 20 critical process improvements. Besides these, we have 150 process studies in progress.

INTERNAL AUDIT

We have established internal control systems in order to reach our strategic goals, ensure effectiveness and efficiency of our activities, reliability and accuracy of financial and operational information, protection of assets and compliance with regulations, policies and procedures. DeFacto Audit, Risk Management and Revenue Protection Directorate conducts assurance and consultancy activities to evaluate and improve the efficiency of risk management, internal control and governance processes, based on the principles approved by the Board of Directors.

Internal control activities are carried out in accordance with the international internal audit standards. The effectiveness of the current internal controls regarding elimination of risks in business processes is assessed during the audits conducted. The causes and effects of any control deficiencies detected as a result of the audits are analyzed, management action plans for eliminating the problems

are received from the relevant units and these actions are monitored to check whether these actions are implemented on time. In addition, audit teams operating in the areas of retailing audits and loss prevention conduct examinations and investigations in addition to their audit activities when necessary.

In 2017, we focused on the most critical aspects in the Company's risk inventory and conducted controls in 25 main processes. Within the scope of the retailing audit activities, we performed 1,216 on-site audits in total, including 348 stores in Turkey, 91 stores and 4 franchises abroad. We carried out the audits of ISO9001 and ISO27001 and ensured certification continuity. In 2018, we will increase the number of ISO 9001 and ISO 27001 certified auditors to provide a more effective management.

INFORMATION SECURITY

Ensuring the security of the data of our employees, customers and suppliers is included among the aspects we address as part of risk management. We intend for the following with the Information Security Management System we established in line with ISO 27001: 2015 Standard:

- To manage information security risks within the scope of DeFacto Corporate Risk Management,
- To trust our employees and keep their jobs "secure" and "continuous",
- To support the decision making mechanism by making information complete, accurate and accessible,
- To ensure that information is only accessed by authorized individuals
- To guarantee change management while continuously developing the information systems and components,
- To detect information security violation incidents and eliminate these together with their root causes,
- To reinforce the information security awareness of the organization.

Primarily, we evaluated and prioritized the information technology process risks as part of our information security studies. We ensured that these risks are improved in accordance with our risk management methodology. We also update the privileges of critical information access for the privacy of customer information and personal information and we take precautions to ensure that the integrity and safety of this information is not compromised.

CORPORATE MEMORY LIBRARY (QDMS)

As of 2016, we started to prepare, control, publish and revise the necessary documents for the management of our business processes through the QDMS Document Management System. With the QDMS software program, we have ensured that our management system processes are automated and traceable, data analyses are facilitated, data sharing can be managed safely and easily, data loss is prevented, and corporate memory is established.



BUSINESS ETHICS

As we move on the path to become a multinational corporation, we strive to maintain our way of doing business in accordance with universal values. We encourage and support our employees and suppliers to act within ethical values and remain committed to the ethical values of individuals and institutions. In this direction, DeFacto Business Ethics and Principles Manual we have prepared for our employees and the Supplier Code of Conduct prepared for our suppliers are of guiding nature. DeFacto Business Ethics and Principles Manual is a document that includes the rules that all employees are required to adopt in their relation with each other, the company and the suppliers.

In 2017, we distributed the "DeFacto Business Ethics and Principles Manual" to all our personnel in Turkey and abroad.

We published the Manual in Turkish, English, Russian and Arabic on the intranet platform, accessible by all DeFacto personnel. We receive the commitment of all our employees, including our newly recruited personnel, that they have read and approved the Manual. In addition, during the year, we increased the ethical awareness of our employees by carrying out seminars and online trainings about the Ethics Line and sharing informative messages in the form of Q&As. As we move on the path to become a global brand, we also informed our stakeholders on DeFacto Ethical Principles. In this context, we re-announced our Ethics Line by sharing the DeFacto Supplier Code of Conduct with all of our suppliers.

Any attitudes or circumstances that are deemed incompatible with Ethical Values can be notified anonymously via DeFacto Ethics Line. Notifications can be communicated

through the telephone, private e-mail address, or online over a private Internet address with a corporate user name and password. DeFacto Ethics Line is open to the use of all our domestic and international employees and suppliers and is operated by an independent company. Calls or e-mails are recorded by a team of experts. The expert team regularly reports the notifications made to the persons assigned to the Internal Audit unit and these reports are evaluated by the relevant officials. Matters, which are considered to necessitate sanctions, are forwarded to the Discipline Committee. Employees identified to act incompatible with Ethical Principles, are subject to a variety of discipline penalties ranging from a warning to dismissal as per our DeFacto Discipline Regulation that we provide to the knowledge of every newly recruited employee.

DEFACTO BUSINESS ETHICS PRINCIPLES

- Honesty:** Integrity and honesty are our priority values in all our business processes and relations.
- Confidentiality:** As DeFacto employees, we are careful about handling and protecting the confidential and private information of our customers, employees and business partners.
- Compliance with the Law:** We conduct all our activities and transactions that we carry out domestically and internationally within the scope of the local codes and international law, and submit accurate, complete and comprehensible information to the legal regulatory institutions and organizations on time.
- Our Stakeholder Relations:** As we have undertaken by signing the United Nations Global Compact, we ensure full compliance with the universal principles concerning human rights, working conditions, environment and clean society. And we take the necessary cautions for these principles we have internalized, that they are implemented by all our stakeholders.
- Our Customer Relations:** We work with a proactive understanding that is customer satisfaction focused, and respond to the requirements and demands of our customers within the shortest time, in the most correct way.
- Our Relations with Employees:** We ensure that the employees exercise their personal rights fully and correctly. We approach our employees honestly and fairly, and undertake a non-discriminating, safe and healthy work environment.
- Our Relations with Suppliers:** We undertake to be in fair, balanced and impartial relations based on mutual respect with all our suppliers and subcontractors, starting from the negotiation stage.
- Our Relations with the Environment:** With our ecological product policy, preventing the presence of any harmful coloring agent for human health is among our priorities in the supply process.
- Our Relations with Public Offices and the Media:** We realize open and honest relations with the public offices on legal basis, in compliance with the laws and regulations, within the framework of ethics rules, while protecting the legal rights and interests of the company with respect to methods and principles.
- Conflicts of Interest:** We aim to refrain from relations and circumstances that might involve potential or actual conflicts of interest.
- Acts Aimed to Derive Personal Benefits and for Relatives:** We do not get involved in any business relations, which impart mutual or one-sided benefits, with our family members, friends or third parties.
- Gifts, Dinners and Offers:** We refrain from deriving any benefits or accepting any gifts that influence or might influence our impartiality, performance and decisions while performing our jobs.





SUSTAINABILITY MANAGEMENT

One of the components of our success story we have been putting forward since our foundation is operational and financial growth and the fact that we have achieved this success without glossing over our responsibilities to the environment and the human. And our sustainability approach is the foundation to this approach. Accordingly, we manage the impact arising from our activities and products with the awareness that it is our responsibility towards environment, our employees and society. While we aim to achieve sustainable growth, we also strive to create value for our stakeholders.

Our sustainability approach develops policies and systems to manage our impact by determining areas with strategic priority through systematic methods and we monitor results of our practices through the performance indicators we have identified. We aim to make our sustainability approach more dominant in DeFacto and Ozon Tekstil operations as well as in the operations of our suppliers, to manage the social, environmental, ethical and economic impacts across our value chain and eliminate the unfavorable ones.

SUSTAINABILITY MANAGEMENT ORGANIZATION

Board of Directors is responsible for the integration of our environmental, social, economic and ethical responsibilities into our business strategies. It is the responsibility of all our employees under the leadership of the senior management to participate in this process by making the necessary business plans. We present the performance results obtained to the Board of Directors within the organization and share them with all our external stakeholders through annual sustainability reports.

The Sustainability Study Group, in which various units are represented, is responsible for the preparation of business plans for the related issues, as well as the development, implementation and reporting of practices in sustainability management.

DEPARTMENTS TAKING PART IN THE SUSTAINABILITY STUDY GROUP:			
Internal Audit	Administrative Affairs	Construction and Technical Works	Human Resources
DeFacto Academy & Happiness	Corporate Communication	Law	Operation
Marketing	Risk Management and Compliance	Social Compliance	Strategy
Supply Chain	Product Management	Product Technology & Quality	

An important instrument we use in the development of our sustainability practices is the information of current practices received from the international initiatives. In this context, UN Global Compact of which we are a signatory and the ten principles we commit to comply with are the sources that shape our sustainability policies and practices. The Sustainable Development Goals, which were adopted by the member states in the presence of the UN and determined for the year of 2030, are among the references on which we will base our work in the upcoming periods.



DEFACTO SUSTAINABILITY PRIORITIES

We reexamined our sustainability priorities through the studies we conducted during the reporting period. One of the studies conducted in accordance with the principles set forth in the GRI Standards was the materiality study. It was conducted with a group of approximately 400 stakeholders consisting of our employees and suppliers; and we prioritized the potential impact points in terms of their size, arising from the activities of DeFacto and Ozon Tekstil, expectations and opinions of the stakeholders. We gave our portfolio its final shape by evaluating the results obtained in the workshop with the Sustainability Study Group.

MATERIAL ASPECTS	DEFACTO ACTIVITIES	OZON TEKSTIL ACTIVITIES	SUPPLIERS
Supply Chain Management		*	*
Brand and Reputation	*		
Occupational Health and Safety	*	*	
Business Ethics and Legal Compliance	*	*	*
R&D and Innovation	*		
Employee Development and Talent Management	*	*	
Environmentally Conscious Production	*	*	

During the materiality process, we evaluated UN Sustainable Development Goals in terms of DeFacto operations. As a result of these practices, our employees and stakeholders stated that they considered Decent Work and Economic Growth, Quality Education, Good Health and Well-Being, Responsible Consumption and Production, Industry, Innovation and Infrastructure, Reducing Inequalities and Partnerships for the Goals as top priorities for DeFacto.





DIALOGUE WITH STAKEHOLDERS

We use a variety of dialogue platforms to find out the expectations of our stakeholders to respond promptly. We communicate with stakeholder groups through appropriate means and with frequency compatible with their character.

OUR PRIORITY STAKEHOLDERS	STAKEHOLDER DIALOGUE PLATFORM	CONTENT/PRACTICE	DIALOGUE TIME INTERVAL
OUR EMPLOYEES	Employee satisfaction survey	We conduct surveys where we measure the commitment, satisfaction and motivation of our employees.	Carried out regularly once in every two years.
	DeFacto Sprint to the Future Portal	A platform where we share the prepared e-training modules with our employees and monitor the trainings.	Updated in line with the training plans.
	Bulletin	We publish bulletins intended for the employees in order to ensure internal communication in our Company.	We regularly inform our employees throughout the year.
	Open-Door	We organize meetings allowing the employees to get together with the senior management.	Organized every week.
OUR SUPPLIERS	Supplier assessments	Environmental and social compliance assessment is a part of the process of choosing suppliers. We determine the areas of improvement during this assessment, share the results with our suppliers, and determine the actions that will improve their performances together with them.	Social compliance assessment is applied in the selection of new suppliers to work with and subsequently once in every six months.
	Supplier trainings	We give trainings to our suppliers in order to inform them about standards we follow at DeFacto or updated standards on matters such as product responsibility, etc.	Conducted when working with the supplier for the first time and when necessary.
	Supplier satisfaction surveys	We identify improvement areas to measure the satisfaction levels of our suppliers and develop long-term collaborations.	Conducted annually on a regular basis.
	Supplier Days	Throughout the year, we organize private events together with our suppliers in order to view collections, share our thoughts.	Conducted throughout the year in various intervals.
OUR CUSTOMERS	Customer satisfaction monitoring	We organize focus group meetings in order to evaluate the expectations and feedbacks of our customers regarding our products.	Conducted regularly and on different product groups' basis.
	Request and grievance management system	Our customers may submit their demands and complaints regarding our products and services through our call center or our corporate website. Moreover, we respond to wishes and demands received through social media (Twitter, Instagram and Facebook).	Necessary actions are taken regarding requests, demands, wishes and complaints and feedbacks received.
	Customer satisfaction survey	We conduct a survey to evaluate the customer experience from the moment they enter in the store up to the moment they leave.	Applied in pilot stores at defined intervals.
	Customer Experience Days and AMIGO Activities	The members of the Product Management team work as sales advisors at the stores for one day and find the opportunity of one on one communication with the customers.	Conducted regularly every week.
OUR INVESTORS/ SHAREHOLDERS	Our Investors/ Shareholders	The shareholders and investors of DeFacto, which is a private capital company, are regularly briefed with respect to the Company's financial, environmental and social performance.	Continued regularly throughout the year.
SOCIETY	Volunteerism activities	Our Happiness Ambassadors Group organizes volunteerism activities that will generate social benefit, in collaboration with NGOs.	Continued throughout the year, so as to organize at least one activity every month.
	Presentations at conferences	We share the sustainability practices at DeFacto with our stakeholders in various events.	Varies depending on the frequency of the relevant events organized.





# DESIGN AND INNOVATION



We offered 52,843 different ready to wear apparel products to our customers.



We completed the second and final phase of the Smart Logistics Center in Tekirdağ, Çerkezköy that has a closed area of 50.000 m<sup>2</sup>.

## Related Sustainable Development Goals



Highlights of 2017



Our vision to become a global fashion brand that makes one go “WOW”, ensures us to create innovative products that reflect the latest fashion trends and shed light on the future in terms of environmental impact and functional qualities to fulfill consumer expectations, and to develop textile practices that produce competitive and value added advantage. As a result of our R&D studies, we have 7 patents and 1 industrial design application and 2 registered industrial designs as of the reporting period.

## PRODUCT DESIGN

There are a number of factors effective in leading a fashion brand to success. Among these factors, product design has a priority role since the consumer appeal is the most effective factor in decision of purchase. Our design team, which consists of 59 product designers and 16 graphic designers, conducts continuous product development studies all year round to attract that appeal. In addition to our own team, our strategic suppliers with product design teams also conduct product development studies for us throughout the year. While the in-house design team focuses on creating new designs for Basic Products and Current Basic Products, nearly 50% of the products we introduce to our customers consist of products designed by our suppliers.

Our collection development process consists of 5 phases. To begin with, the design team analyzes macro, micro trends and new trend warnings in depth. Along with product design performance, new season products in the fashion industry including the products of the peers are also examined. After the research on the several fabrics and ornaments afterwards, the process consisting of seasonal product design is completed upon the final decision to reach the required product range with the approval of the design.

The macro trends examined in this process are closely related to our sustainability performance. This is because sustainability aspects such as social, economic and environmental trends as well as economic, political, physical and all similar macroeconomic conditions are evaluated in this process. Micro trends product design performance analyses refer more often to the examination process of the performance of current product categories in detail.

The increase in the young urban population, the increase in the expectation of better living standards, the diversification of needs arising from the modern city and business life also cause changes in the production cycles of traditional collections fashion industry has followed in the past years.

Following a business model that internalizes the current structure of the ready to wear apparel sector and the consumer expectations, DeFacto reflects this understanding into its product design processes. Accordingly, our design teams develop 6 collections each year designed according to a certain schedule. Small-scale capsule collections are also developed to take advantage of the opportunities arising during the season. And this means that we develop a new collection every two months at minimum and offer them to our consumers. As a result of these studies, in 2017 we offered 52,843 different collection products to our customers.

In addition to fashion design, a significant part of product development studies consists of practices that increase the added value of the product with its various characteristics. At the outset of these practices, we have innovative and environmentally friendly product development activities such as DeFacto Inova and DeFacto Eco, which we developed as a result of our R&D studies. On the other hand, we also carry out product development studies with various functional characteristics, using innovative raw materials.

## TECHNOLOGY DEVELOPMENT

The retail sector, which includes ready to wear apparel sector, as one of the most dynamic and open to change sectors in the world economy, is also the cardinal sector which is affected the most by digital transformation due to fast developing technologies. Digitization, which has become widespread in every sector all around the world, provided great dynamism in the retail sector as well. Working with the goal of becoming a global brand, DeFacto closely monitors the technological developments in the sector due to all these developments and makes the largest investment in this field.

In order to develop innovative approaches and new technologies in production and service processes, we established a technology company DeFacto Tekno to operate in Istanbul Teknopark in 2015. More than 100 software developers and R&D personnel at DeFacto Tekno work on developing their own software.

## SMART WAREHOUSE

For our operations in Turkey, we carry out our logistics operations with our own capabilities. We conduct our warehouse practices in a logistics center with a closed area of 50.000 m<sup>2</sup> located in Tekirdağ, Çerkezköy.

Our logistics center, which has the capacity of 35 million pieces that we distribute to our sales points after receiving our products from our suppliers, consists of four main sections including automated warehouse, manual warehouse, storehouse and transfer depository. This center, which is the Turkey's first automatic ready to wear apparel warehouse, is established with the completion of the first phase in 2014 and the second phase in 2017. We carry out 85% of all our distribution operations in Turkey and e-commerce shipments from this center.





# PRODUCT RESPONSIBILITY AND CUSTOMER SATISFACTION



### Highlights of 2017



We used 100% organic cotton in 965,000 products and 240 tons of recycled clippings in 640,000 products.



Thanks to water-free products, we saved approximately 2,000 tons of water in our suppliers.



We used less paper after redesigning of our product tags; we used recycled paper on about 13 million product tags.

### Related Sustainable Development Goals



**T**owards our main goal to become a global fashion brand, our biggest

strength is to develop satisfaction by fully meeting the expectations of our consumers. While one part of this satisfaction is ensured through the development of acclaimed products and service processes, the rest is achieved the management of the impacts of our products on consumer health and environment. While managing these impacts, we take the product and service standards of Turkey and of all the countries where our products meet with the customers into consideration. We aim for excellence in all the processes ranging from production to after-sales services, assure consumer health by subjecting our products to testing and control, and reduce the environmental impact of our products through alternative raw materials and production techniques. We monitor the results of these studies and follow the level of customer satisfaction through various researches.





## PRODUCT SECURITY

One of the most important promises of DeFacto brand is to take all necessary precautions to ensure that our consumers can safely use the products they buy. For this purpose, we implement a large number of control and verification practices according to product groups. For these practices, we set ourselves benchmarks beyond legal requirements.

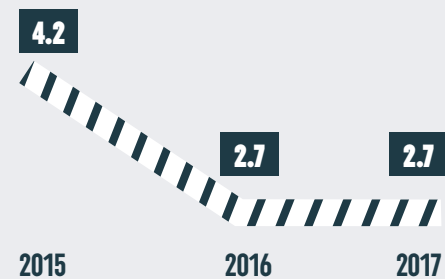
Various types of raw materials are used in the production of clothing and accessory products. Some of these are chemical based materials such as dyes and adhesives. With respect to consumer health, quantities of residue in the final products are also indicated in the legal regulations. As a result of these measures, we ensure that residue of these substances in the final products are way below legal limits, in trace amount and at a level that no consumer is at risk of health and safety. In order to insure that we test our products in our accredited laboratory. We do not dispatch any products with chemical residue above the required limits to our stores.

Phthalates, azo-dyes and heavy metals which are proven or suspected to have harmful effects on human health are chemicals that we control and restrict its use. We have been testing our products against such hazardous materials, in compliance with the "OEKOTEX® 100" standards since 2014. In our purchases, we only prefer the products produced by OEKO-TEX® certified manufacturers that pass the required tests.

The amount of chemical residues is directly proportional to the amount of chemical used. Despite the increasing volume of production, the amount of chemical consumption per unit produced in Ozon Tekstil in 2016 and 2017 is lower than it was in previous years.

As we believe that product safety must be managed with a holistic view that begins with the selection and purchase, we provide training to our manufacturers and employees on the use of proper and nonhazardous materials.

### CHEMICAL USAGE PER PIECE PRODUCED IN OZON TEKSTIL (GR/PIECE)



## BABY AND KIDS PRODUCTS

There are certain safety requirements for the products designed for children in Turkish and European Union legislation. TS EN 14682 Safety of Children's Clothing Standard and BS 7907 Safety of Children's Clothing Standard are among these reference standards. In the past reporting period, we reviewed all our available children's product safety standards and made revisions in compliance with the norms set by TSE and European Union standards when necessary.

The DeFacto Product Safety Manual, which covers the standards we updated, includes detailed information about the technical ready to wear apparel standards and the technical production methods that must be followed in order to meet these standards.

## PRODUCT TESTS

By prioritizing customer satisfaction and trust, we subject our products to tests with respect to quality and residual chemicals at our analytical and physical laboratory within our organization, accredited in line with ISO/IEC 17025 Standard. The content of the tests conducted in our laboratories, are more comprehensive than the compulsory tests for products imported to Turkey.

In the Analytical (ecological) Test Laboratory, raw materials and hazardous chemicals generated by production processes are analyzed according to OEKO-TEX Association requirements recognized worldwide for textile products. The tested chemicals include phthalates, azo-dyes, organic tin compounds as well as heavy metals such as lead, cadmium, nickel and chromium. Thanks to these tests, it is ensured that products that could pose risks for human and environmental health are not placed on sale. In our analytical laboratory, we make an average of 100 finished product analyzes per day.

In Physical (Textile) Test Laboratory, quality analysis is performed through physical tests on the fabrics that will be used in our ready to wear and accessory products. The purpose of these tests is to increase customer satisfaction and reduce the return ratios by determining the errors arising from the production in advance.

We follow TS EN ISO test standards as reference and use the most applicable method. In the Physical Test Laboratory, we carry out 100 pieces of fabric and 70 finished products analyses per day on average including color fastness tests, pilling, size consistency and resistance tests.

In 2017, we applied 73,069 different analytical tests on 23,133 samples in total and 250,000 different physical tests on a total of 45,000 fabrics and products.

As a result of the tests performed, 6 tons of hazardous liquid wastes and 1,200 tons of non-hazardous wastes on average generated in the analytical laboratory annually are disposed by the authorized institutions. In the physical laboratory, 380 tons of non-hazardous liquid wastes generated annually.

Another risk factor threatening consumer safety in textile products is the risk of broken needles. For the full safety of end users, broken needle protocols are followed in the production processes of Ozon Tekstil or other DeFacto suppliers. Within this context, all of our products are checked with metal detectors prior to leave production facilities and loaded on vehicles.

Having our in-house test laboratories is a factor that shortens the production approval process, increases product safety and supplier satisfaction. However, we also conduct tests in accredited independent testing institutions in case of exceeding laboratory capacity or malfunctioning. In 2017 we sent 1,112 samples to independent analytical laboratories and 1,458 samples to independent physical laboratories.





ENVIRONMENTAL PRODUCTS

In addition to our environmental impacts generated during our production processes, there are also environmental impacts that arise from the products themselves due to raw materials used. We follow three fundamental practices to reduce the environmental impacts of our products:

- Use of organic cotton
- Use of recycled raw material
- Saving water

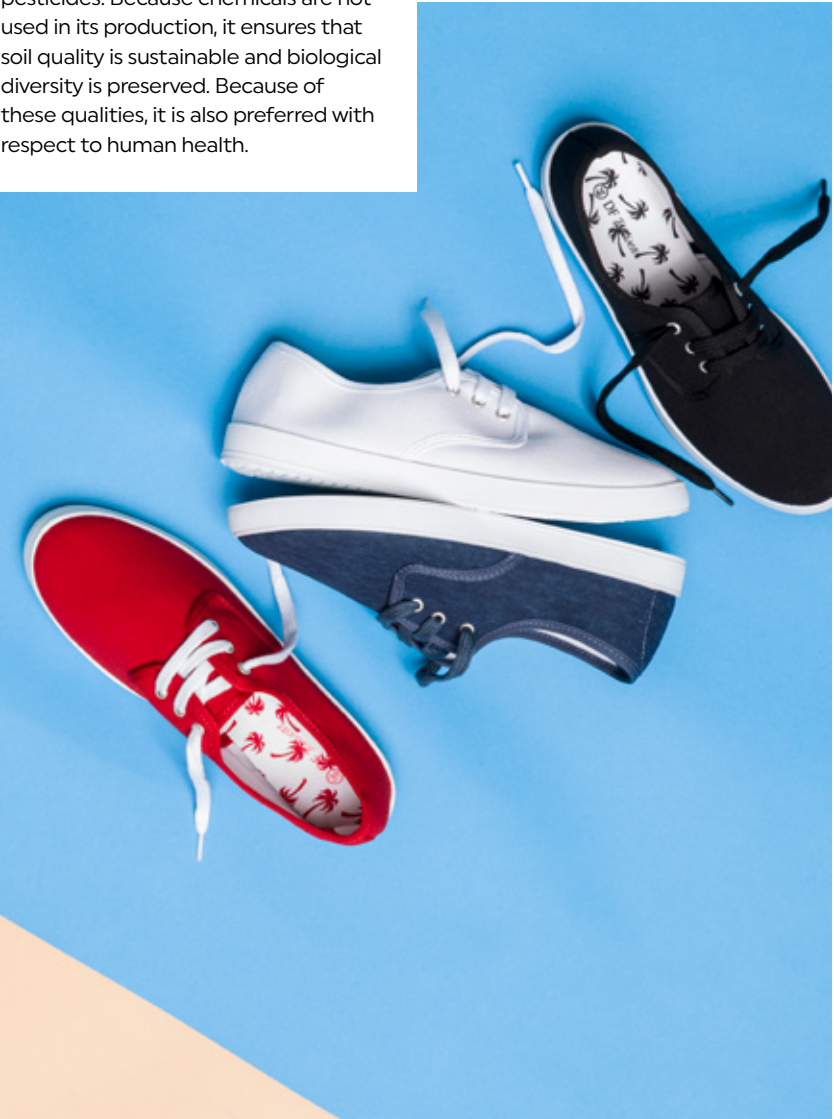
USE OF ORGANIC COTTON

As in the most textile products, we prefer cotton-based fabrics in majority of DeFacto products we offer to our customers. However, the production of cotton that is an industrial plant requires large amounts of water. On the other side, cotton production generates an environmental impact due to pesticides, fertilizers and land use. Organic cotton production limits these environmental impacts.

Organic cotton is not genetically modified, and it is produced without the use of synthetic fertilizers and pesticides. Because chemicals are not used in its production, it ensures that soil quality is sustainable and biological diversity is preserved. Because of these qualities, it is also preferred with respect to human health.

We have started to offer products such as t-shirts, trousers, knitwear, which are produced by using organic cotton, to our customers in our stores at certain intervals since 2015. While in some of our products, fabrics made of 100% organic cotton are used; some of our products contain at least 60% organic cotton.

Since the first day application, the amount of products made of fabrics containing 100% organic cotton has been increasing continuously. In 2017, this amount increased by 9 times to 965,000 units compared to previous year.



RECOVERY

Efficient use of limited natural resources is important with respect to reduce environmental impact. Within this context, we reduce the environmental impact of our products by preferring recycled products if they are convenient in terms of quality and human health, from textile filaments to product accessories and parcels. Taking different technology alternatives into consideration, we prefer to use recycled materials when we find fit. The raw materials generated from the recycling of clippings formed during the production of textile products, old textile products, materials recycled from PET bottles are examples of recovered materials that we use in production.

We support our suppliers to use the clippings formed during the production of textile products in new products. In some of our products, we use fabrics made of recycled fibers that make up 50% of the product weight. In 2017, we reused 240 tons of clippings in 640,000 products and prevented the generation of waste.

We consider the technologies that allow the recycling of PET packaging waste and its use in the production of t-shirts. As a result, 7.5 recycled PET bottles are used in the production of one t-shirt.

We prefer environmentally friendly options for packaging and side materials as well as our products. For example, we produce product packaging such as cardboard boxes and display materials such as hangers from the recycled raw materials.

THE AMOUNT OF PRODUCTS CONTAINING %100 ORGANIC COTTON (PIECE )





During the reporting period, we increased our performance in this area compared to previous periods. For example, we preferred recycled paper for about 2 million product tags in 2015, and 5.6 million in 2016 and 13 million in 2017.

WATER-FREE PRODUCTS

Being a limited natural resource, fresh water is used extensively in the textile industry. So water saving is important in reducing our environmental impacts.

NUMBER OF WATER-FREE PRODUCTS	
2014	3.4 million
2015	3.5 million
2016	4.7 million
2017	1.5 million

A product is passed through washing by adding silicone softeners at the final stage of production in order to bring it to a softness that customers would prefer to use. In certain products, we reach a desired softness with a technique applied during fabric production instead of washing. We named these kinds of products as water-free products. Thanks to our water-free products, we ensure both water and energy savings since there are no washing and ironing operations compared to the normal production techniques. We saved approximately 2,000 tons of water thanks to our 1.5 million water-free products sold in 2017.

CUSTOMER FOCUS

One of the key elements in securing the sustainable development of the perception and value we created with our brand is to improve customer loyalty. In order to achieve this, we must know our customers closely, respond accurately to their expectations, admirations and needs and listen to their feedbacks. Starting before they enter our store, we conduct various studies to measure the total experience of our customer concerning our brand.

We monitor the effectiveness of our brand image and communication studies by quantitative customer researches we perform on a monthly basis. We also conduct qualitative and quantitative researches to understand the product related expectations and needs of our customers and to receive feedbacks regarding our collections. We conduct researches on online platforms, applying innovative methods to reach different customer groups, especially young customers.

We use a variety of survey and research methods to measure store experiences of our current and potential customers starting from the moment they enter the store and to test the reflections of campaigns and in-store activities.

With the AMIGO program we developed with a customer-oriented approach, we aim that our employees get in touch with customers. As part of the program, we obtain information that will support the product development

process and the shopping experience through individual interviews and accompanied shoppings.

The call center and social media channels are other sources that we feel the pulses of our customers. We have a strong social media presence with approximately 2.1 million followers on Facebook, 200,000 on Twitter, 60,000 on LinkedIn, 800,000 on Instagram and 20,000 on other social media channels. With the information obtained through these channels, we identify our development areas and receive regular feedback to keep customer satisfaction at high levels. Through DeFacto Blog, our customers can follow the latest fashion trends and current fashionable looks, and buy the products they see. We also find cross-selling opportunities by collaborating with brands from other sectors through campaigns organized via these channels. During the reporting period, our online sales channel operating only in Turkey received 70 million visits. For the upcoming periods, we are working to increase both the number of visits and the number of markets we meet with our customers through our online sales channel.

As a fashion company performing international operations, we closely follow local customer expectations. In addition to our global product collection, we also identify products that meet local demands and present them to our customers. For this reason, the share of the product series we offer in the active markets within the general collection may differ from one another. For example, while the share of women's products in the CIS and Balkan regions does not exceed 5%, this share is around 15% within the global collection.

DEFACTO BRAND

Our core value that embodies our promise to our customers and their perception of us is our brand. Our most important goal to strengthen our brand worldwide is a driving force to improve our performance in every field ranging from the product quality to production processes, from community relations to corporate governance due to the perception and value it represents. With our main brand DeFacto, we introduce our products to our consumers in 72 countries including Turkey.



OMNI CHANNEL

We use online and offline channels in order to offer a consistent and proper experience to our consumers when and where they prefer as well as through the means they prefer. We aim to increase customer satisfaction by providing sales and support services at the same quality through different channels.

GRIEVANCE MANAGEMENT





We see all positive or negative feedback we receive from our customers as opportunities to improve our products and services. We evaluate all customer expectations and complaints that reach customer services through the call center and [www.defacto.com.tr](http://www.defacto.com.tr) address via a grievance system certified within the framework of ISO 10002: 2004 Customer Satisfaction Management Standard. We immediately resolve complaints that are recorded by our customer representatives, if possible. If not possible, we refer the matter to the relevant units that will develop a solution. We notify the results of the complaints to our customers, and implement actions aimed for the improvement concerning the product, service or process.



# SUSTAINABILITY IN THE SUPPLY CHAIN



Highlights of 2017

-  We procured 82% of our garments in Turkey.
-  We prepared the DeFacto Supplier Map.
-  The rate of suppliers that passed quality audit at first time improved by 6%.
-  Our Social Compliance Team started subcontractor audits.

Related Sustainable Development Goals

1  
NO POVERTY  


5  
GENDER EQUALITY  


8  
DECENT WORK AND ECONOMIC GROWTH  


9  
INDUSTRY, INNOVATION AND INFRASTRUCTURE  


10  
REDUCED INEQUALITIES  


12  
RESPONSIBLE CONSUMPTION AND PRODUCTION  


17  
PARTNERSHIPS FOR THE GOALS  

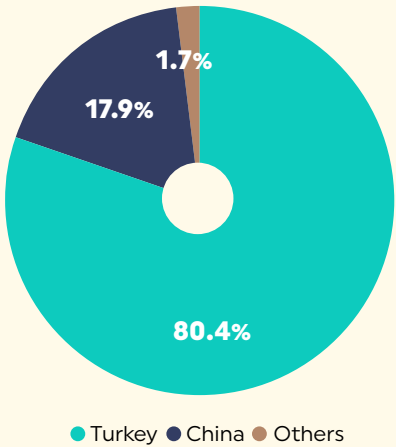




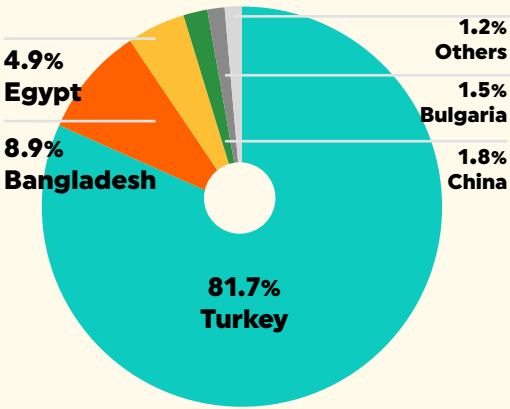

We are aware that a significant portion of our social, economic and environmental impacts on sustainable development has the potential to occur across our supply chain. With this awareness, we make "a responsible supply chain management" one of our business priorities. While we provide necessary infrastructure and support for our suppliers to ensure commercial and operational growth, we implement systems and practices ensuring that social and environmental impacts are being managed in their operations. We set forth mutual benefits and expectations to improve our communication and cooperation with our suppliers and carry out necessary process and practice development studies. We learn about our suppliers' feedback concerning their working experience with DeFacto through supplier satisfaction surveys.



2017 DISTRIBUTION OF ACCESSORY PROCUREMENT ON COUNTRY BASIS BY VOLUME (%)



2017 DISTRIBUTION OF Ready to wear APPAREL PROCUREMENT ON COUNTRY BASIS BY VOLUME (%)



DEFACTO SUPPLY CHAIN

One of the prerequisites for success in the ready to wear business is to develop a supply chain that is fully in line with social and environmental norms of high productivity and quality conditions. DeFacto's success in managing its supply chain has a major share in its continuous growth from the past to the present.

Our subsidiary Ozon Tekstil is one of DeFacto's main suppliers but it does not represent our whole supply chain. By 2017, DeFacto worked with over 200 different suppliers. 26 of these companies, including Ozon Tekstil, are described as strategic suppliers. The production of these companies for DeFacto accounted for 60% of the total purchasing volume.

Another important feature of DeFacto's supply chain is having a strong local character. In this respect, the positive impact of DeFacto on the sector and local economy is also increasing. Accordingly, 79% of the DeFacto suppliers operate in Turkey and mainly in Istanbul and its vicinity.

During the reporting period, we procured 81.6% of our ready to wear products by volume from our suppliers producing in Turkey. Our suppliers in 12 different countries produced the rest. Unlike last year, production in Bulgaria in 2017 showed a considerable increase. The main reason for this is the shifting of the production resource to that area in order to support DeFacto, strategically growing in retailing in the Balkans. We procured 80.4% of our accessory products from our suppliers in Turkey in 2017, and the rest from abroad.

Companies in the DeFacto supply chain are similar in character to the ones in the ready to wear sector in general. According to this, 60% of the firms among our suppliers are labor intensive and 40% of them produce with technology intensive processes. This situation brings social compliance issues to the forefront.

Defacto prefers to make supply agreements with producers directly and signs standard framework agreements with suppliers, often with automatic extension provisions. In this way we ensure that our suppliers work at high standards we expect from them. Technical, quality, financial and social compliance approvals are of critical significance to ensure the same standard and quality in our procurements from various parts of the world.

SUPPLIER CODE OF CONDUCT

We took Supplier Code of Conduct, which we share with our suppliers to a higher level in 2017 by updating it during the reporting period. Accordingly, DeFacto's teams created the DeFacto Supplier Map by starting subcontractor and supplier audits alongside the third-party SEDEX audits we request from our main suppliers.

The "red lines" that stand out in our Supplier Code of Conduct consisting of 11 principles continue to preserve its weight in the new version just as previous versions. Accordingly, in case of nonconformities with the principles that we identify as Red Lines, it is expected that the risk in that subject is mitigated or the situation is improved.

OUR RED LINES

- Employment of Child Labor: We do not accept the employment of child labor in our main contractors or subcontractors under any circumstances.
- High Fire Risk and Building Safety: We call for the immediate resolution of nonconformities that do not comply with Occupational Health and Safety requirements and that may lead to risks such as single or collective life-threatening injuries to employees.
- Employment of Illegal or Immigrant Workers: We do not accept the employment of immigrant workers under conditions that are in violation of the law.
- Subcontractor Practices: Situations where there is non-registered employment, unregistered subcontractors, payment under minimum wages are not accepted.



SUPPLIER PERFORMANCE EVALUATIONS

Periodic evaluation is the most effective way to improve the performance of a process. For this reason, we subject all of our suppliers every year to the DeFacto Performance Evaluation System.

SUPPLIER EVALUATION SCALE		
Score	Grading	
85%-100%	Blue	Strategic
75%-84%	Green	Preferred
65%-74%	Yellow	Good
50%-64%	Orange	Needs Improvement Areas
0%-49%	Red	Cannot be worked with

As part of the DeFacto Performance Evaluation System, suppliers are classified in 5 main categories, evaluated under the titles of quality, timely dispatch and management.

In the course of their production for DeFacto, the suppliers are monitored to ensure that the products are manufactured in accordance with DeFacto's quality expectations and that the production processes are in accordance with the suppliers code of conduct, such as human rights, labor law practices, occupational health and safety, environmental management and anti-corruption.

In line with our continuous improvement approach effective in DeFacto operations in general, we expect our suppliers to continually increase their performance scores in the audits carried out and move on to the higher categories. Our goal is to procure 90% of our production volume from suppliers who perform "good" and above.

As a result of the 2017 evaluations, our 26 suppliers were determined as "strategic". This success provides significant advantages to our suppliers. According to this, while we

allow privileges to our companies with a "strategic" performance score in the procurement system, we prepare development plans, identify necessary studies to be implemented and offer training programs for the companies that are underperforming.

We procured 91% of the placed orders by volume in 2017 from suppliers who received a performance score of "good" and above. We work with producers in the orange category provided that we place orders in restricted quantities and in condition that they improve their deficient aspects.

SUPPLIER AUDITS

We subject our suppliers to various audits before they start to produce for DeFacto and also during our business partnership. In 2017, we have conducted social compliance audits in 167 main suppliers and 1,000 sub-suppliers in Turkey, as well as 56 main suppliers abroad. These audits have been conducted at 2 stages such as 3<sup>rd</sup> party independent audits and field audits conducted by DeFacto teams.

DEFACTO AUDITS

We subject all main suppliers to a preliminary evaluation before they start to work for DeFacto. Afterwards, technical and social compliance teams pay a visit to the supplier in order to conduct a general evaluation in terms of quality and social compliance.

QUALITY SUPPLIER EVALUATION SCALE		
Grading	2016	2017
Blue	11%	32%
Green	17%	25%
Yellow	23%	16%
Orange	29%	19%
Red	20%	7%

These assessments take into account the use of metal detectors and standards such as metal material control, child labor, fire safety and the use of personal protective equipment as well as the ready to wear production quality. Suppliers with a passing score start working for DeFacto.

With the studies of the quality control team established in 2016, we detected potential quality problems in time by controlling our products during production and improved our product quality performance. With the support of the interim control and supplier evaluation team in 2017, we ensured an improvement by 6% compared to the previous year in the ratio of passing from the audit in the first round.

According to the supplier evaluation results that we performed during the year, we gave our suppliers who had audit performance over 90% the authority to conduct their own audits, allowing our technical team to perform more interim control. In 2018, 10 suppliers are expected to carry out their own audits.

SOCIAL COMPLIANCE SUBCONTRACTOR AUDITS

During the reporting period, our social compliance team started to carry out subcontractor visits. Throughout the year, we performed 166 subcontractor audits and formed a general supplier status table. Studies were started by preparing an improvement plan for the subcontractors with low performance that was determined during the visits. Next year, we plan to take this practice one step further and make a social compliance visit for all ready to wear suppliers recommended to the DeFacto system.

In 2017, all the supplier subcontractors were regularly visited and training on ready to wear production standards was provided. Thanks to these trainings, it is ensured that the technical approach of the suppliers to the product is same as the approach of DeFacto technical teams.



SOCIAL COMPLIANCE SUBCONTRACTOR AUDITS IN 2017						
	Strategic	Preferred	Good	Need Improvement	Cannot be worked with	Total
General	31	67	51	3	14	166



# ENVIRONMENT

Highlights of 2017



We reduced the average monthly electricity consumption per m<sup>2</sup> in Turkey stores by approximately 7% compared to the previous year.



We recycled 1,297 tons of cardboard and 259 tons of packaging waste through our stores.

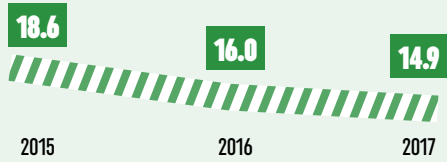
## Related Sustainable Development Goals







**Energy Consumption  
in Stores in Turkey (kWh/m<sup>2</sup>)**



One of the main axes of our sustainability approach is the reduction of environmental impacts arising from retailing and warehouse processes as well as our production activities conducted at Ozon Tekstil. It is observed that environmental impacts such as energy consumption, packaging and waste, chemical substances and water consumption arise during these processes.

Apart from the operations we have under our control, environmental impacts also arise from the operations of our suppliers working for DeFacto. For example, water consumption in fabric production and energy consumption in ready to wear garment processes stands out among these impacts. Our expectation from our suppliers is to primarily carry out their operations in compliance with environmental regulations and generally accepted norms, to use resources efficiently and manage their environmental impacts. Through the supplier audits we conduct, we monitor the extent of the realized expctations and we make improvement plans when necessary.

## ENERGY

Energy consumption in DeFacto operations arises from lighting and air conditioning in our stores and buildings, lighting and automation systems in product warehouses, knitting and garment production processes in Ozon Tekstil operations, and logistics of products and employees in general.

Energy consumption generates environmental impact, especially as it causes greenhouse gas emissions, which lies at the root of climate change. In order to reduce this impact, we carry out efficiency improvement activities at every point where consumption occurs.

Parallel to our rapid growth, there is a continuous increase in our production quantity and number of our stores. And this growth is also reflected in energy consumption. As a result, our total energy consumption is increasing.

However, we managed to reduce the amount of electricity consumption per unit through efficiency improvement practices. In 2017, we reduced the average electricity consumption per m<sup>2</sup> by 7% compared to 2016, from 16 kWh/m<sup>2</sup> to 14.9 kWh/m<sup>2</sup>.

At the basis of this efficiency lie the preference of electric forklifts instead of diesel in warehouses, the conversion of lighting fixtures to LED systems and the use of efficient air conditioning systems in stores. Thanks to the efficient climatization system and new generation LED fixtures we prefer in our stores, we can achieve 35% of energy saving compared to a store similar in size.

We also carry out our energy efficiency studies at Ozon Tekstil warehouse and production facilities. During the reporting period, we aimed to increase energy efficiency through practices such as conversion to LED lighting and lighting automation. In this regard, we managed to save 50,000 kWh of energy during the year.

## PACKAGING AND WASTE

### PACKAGING

We use cardboard boxes, paper and plastic packaging materials to transport our products from our suppliers to the warehouses and directly to our domestic and international stores. Reducing the use of these materials, and thus reducing the amount of wastes generated, and disposal of generated wastes in compliance with law and regulations are among our priorities in waste management. We also carry out studies to reduce packaging materials at the source before they become wastes.

The cardboard boxes we use to carry the product form waste after use. The long durability of parcels makes it possible to use at least 3 or 4 times, reducing the amount of waste significantly. At our Çerkezköy warehouse, we re-use the boxes received from our suppliers and stores. During the reporting period, we re-used 80% of the product purchase



boxes. With these practices, we reduced the packaging waste generated in stores during the reporting period by 23% and reduced it to 1,556 tons.

The cardboard boxes that have completed their service lives and the plastic materials used in packaging are delivered by our stores to licensed waste collection and sorting firms operating at the provinces and municipalities where they are located. We regularly check the validity of these firms' licenses. In some shopping malls, the wastes are collected and disposed accordingly by facility managements. We recycled 1,688 tons of cardboard and 338 tons of packaging waste in 2016, 1,297 tons of cardboard and 259 tons of packaging waste in 2017.

### OTHER WASTES

Wastes classified in hazardous waste categories by related regulations such as laboratory wastes, electrical and electronic waste, wastes generated during the maintenances and repairs of the vehicles, fluorescent tubes, batteries, medical waste, as well as domestic wastes are generated in our operational locations, including Ozon Tekstil. These wastes are recycled by the authorized institutions.

During the reporting period, a total of 694 tons of waste was generated at Ozon Tekstil facilities. 30 tons of these wastes are in the class of hazardous waste. Only 4% of the generated waste

is disposed, and licensed institutions recycle the remaining 96%.

## PAPER

We implement a variety of savings practices in order to reduce the amount of paper we use. For example, it is possible to monitor the amount of paper consumed on user and department basis by ensuring that printouts can be received from the printers only with a user code. We also ensure savings by using digital communication displays instead of printed posters at our available stores. The photocopy papers used at our Headquarters building have sustainable forest certificate (PEFC).

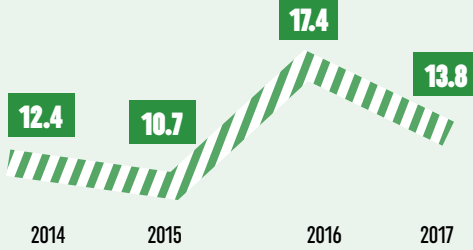
### WATER CONSUMPTION

Water consumption is as important for the textile industry as energy. The reason for this is the fact that the amount of water consumed in the fabric dyeing process is high. Because there is no fabric dyeing process at Ozon Tekstil production facilities, water is consumed only in cleaning and domestic use limits as in our retail operations. For this reason, DeFacto and Ozon Tekstil operations do not have a significant impact on water consumption in comparison with their size. Despite this, we aim to reduce water consumption by preferring more efficient fixtures and treatment practices.

## WASTER PAPER



## WATER CONSUMPTION (m<sup>3</sup>/person)







# EMPLOYEES

Highlights from 2017



54% of workforce at DeFacto Turkey consists of women employees.



We shared our “Happy Women Movement” as a best-practice project in the UN meeting organized in New York.



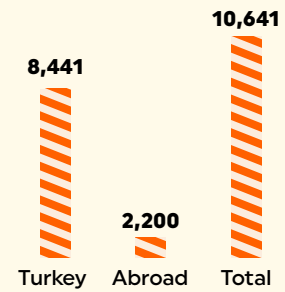
We organized a total of 4,108 person-hours OHS trainings to Ozon Tekstil employees and a total of 9,602 person-hours OHS trainings to store employees.

## Related Sustainable Development Goals

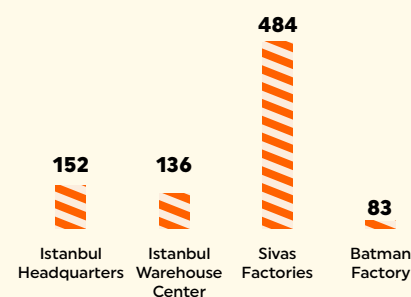
1 NO POVERTY 	3 GOOD HEALTH AND WELL-BEING 	4 QUALITY EDUCATION 	5 GENDER EQUALITY 
8 DECENT WORK AND ECONOMIC GROWTH 	10 REDUCED INEQUALITIES 	16 PEACE, JUSTICE AND STRONG INSTITUTIONS 	17 PARTNERSHIPS FOR THE GOALS 



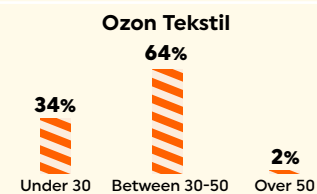
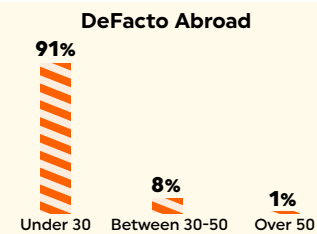
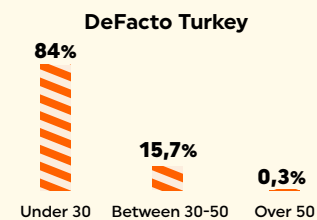
## DEFACTO EMPLOYEES



## OZON TEKSTİL EMPLOYEES



## 2017 EMPLOYEE DISTRIBUTION BY AGE



The path to success in ready to wear apparel industry in which human labor and creativity is of high importance, lies in having a qualified, talented and effective working employee portfolio. We owe our fast growth and success we obtained at a short time period to DeFacto employees. Thus, we support our human resources with high qualified employees, offer them opportunities to improve their talents and a fair, transparent and egalitarian work environment.

Based on our target to become an international fashion brand, we aim to grow by including talented and creative employees who focus on development and obtaining an international career to DeFacto family. In this context, we continue "Success Factors" project, initiated in 2015 which enables us to manage HR processes end-to-end in an integrative manner; this project includes a setup that enables us to support professional developments of our employees using custom information gathered in these systems. Up to now, we have put into practice 360 degrees competence evaluation and hiring modules. Our studies for backup module continue.

## EMPLOYEE PROFILE

We are a fast-growing company in a fast-changing industry. Our employee profile reflects this fact. As of the end of 2017, we employed 8,441 people in Turkey in general and 2,200 people abroad. As a young and dynamic company, most of our employees belong to the "generation Y." 84% of our employees in Turkey are under the age of 30. This rate rises to 91% abroad. Ozon Tekstil which is our subsidiary and one of our main suppliers has different demographics due to its manufacturing-oriented nature. As of the end of 2017, 34% of employees of Ozon Tekstil which employs a total of 855 people are under the age of 30.

About 38% of employees operating in Turkey work part-time. Due to the suitability of working conditions, individuals working at our stores

especially as customer consultants prefer part-time employment. In accordance with staff vacancies, we provide full-time employment opportunities to a part of our part-time employees at later stages so that they can develop their careers accordingly.

In all our domestic and foreign operations, the ratio of employees paid on hours (blue collar) consists 89% of the total employment. This ratio decreases to 87% in domestic operations. We take the support of outsource companies to receive several services in addition to employees we directly employ in our operations in Turkey. In this context, we indirectly employed 803 people to work in DeFacto and Ozon Tekstil locations.

## Diversity and Inclusiveness

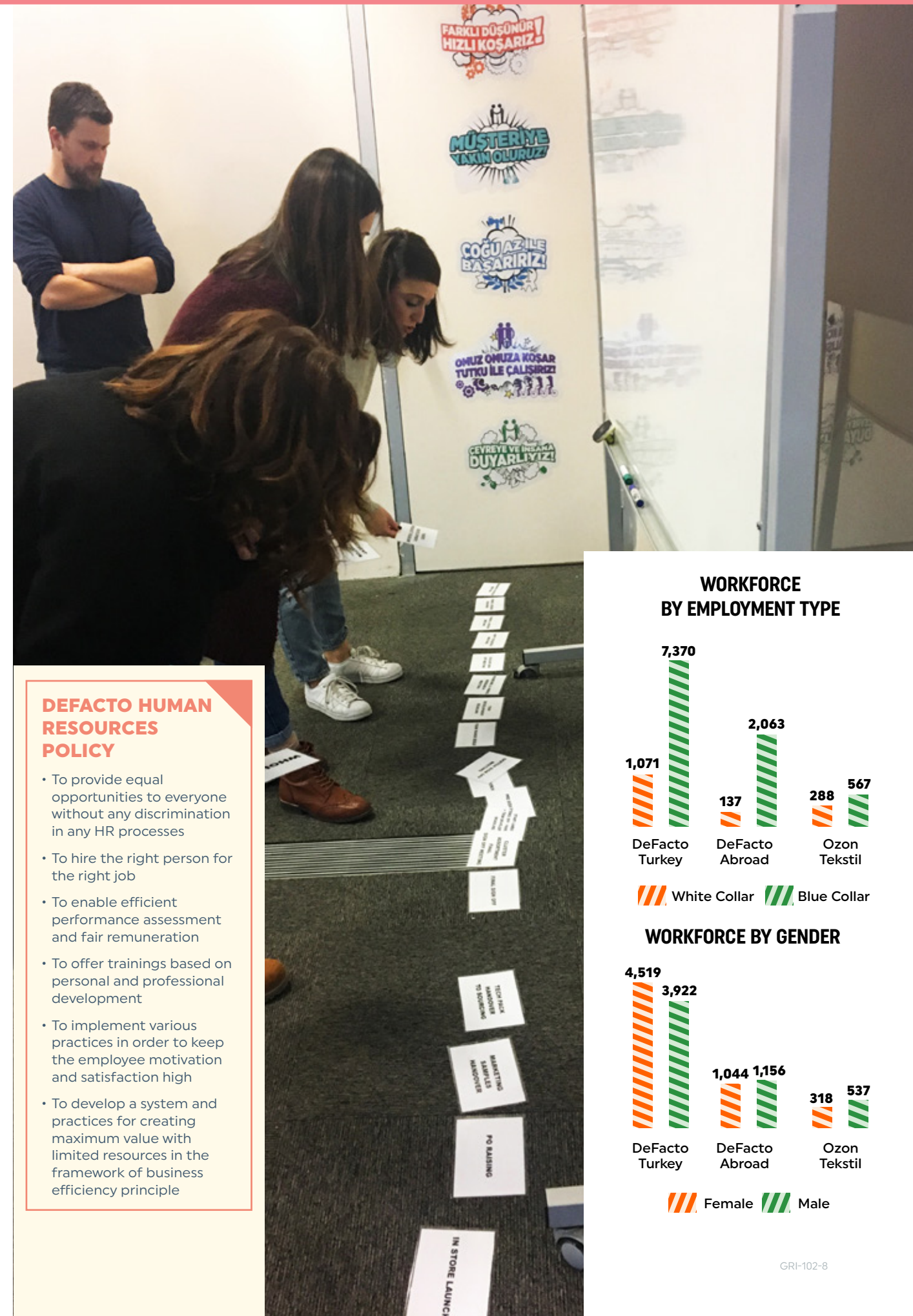
We believe that diversity among our employees strengthens us. In all human resources processes, we provide equal opportunities to all employees without any discriminations of gender, age or ethnicity.

As a result of our corporate culture focusing on diversity, women employees constitute 51% of our total workforce considering the local and international operations of DeFacto and Ozon Tekstil together. As of 2017, the rate of female employees in DeFacto Turkey rose to 54% which was 52% in 2016. In 2017, the rate of female managers working at mid-level and/or senior management both in Turkey and abroad rose to 24% which was 23% in 2016. In 2017, the rate of female managers at mid-level and/or senior management decreased to 19% which was 28% in 2016.

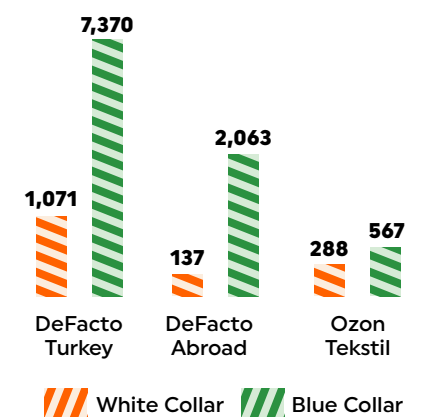
Main philosophy at hiring process is to hire the right person. However, we apply positive discrimination for women during hiring process. We monitor the ratio of female candidates to male candidates and pay attention to keep female candidates at a higher level.

## DEFACTO HUMAN RESOURCES POLICY

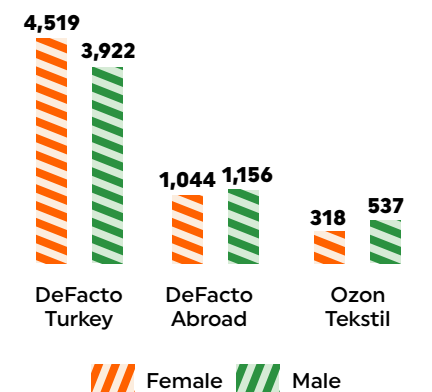
- To provide equal opportunities to everyone without any discrimination in any HR processes
- To hire the right person for the right job
- To enable efficient performance assessment and fair remuneration
- To offer trainings based on personal and professional development
- To implement various practices in order to keep the employee motivation and satisfaction high
- To develop a system and practices for creating maximum value with limited resources in the framework of business efficiency principle



## WORKFORCE BY EMPLOYMENT TYPE



## WORKFORCE BY GENDER





For instance, in 2017, 55% of 4,219 employees who started working for the first time in DeFacto Turkey operations were female; in international operations this rate was 50%.

As a signatory to Women's Empowerment Principles (WEPs), a joint initiative of the UN Women and UN Global Compact since March 2015, we committed to encourage women's participation in business. We continue to provide our employees "Happy Women Movement" in 2017 which was initiated in 2015 based on this commitment.

According to this Happy Women Movement, female employees are able to take unpaid leave for additional 3 months in addition to their legal maternity leave when they give birth; and they are able to use daily breast-feeding leave as one day off in a week. Moreover, mother employees can take half-day leave on the first school day and report card day of their children. In addition, for our employees working at our headquarters, the Happy Women Movement includes parenting coaching, ability to work part-time after birth depending on the suitability of their job and home office once a month for female employees. In our stores, we started a new practice that will allow all pregnant employees to have an extra break time in addition to our legal obligations. At the beginning of 2017, we shared our "Happy Women Movement" as a best practice project in the UN meeting we were invited to in New York.

We provide similar practices we apply in DeFacto to female employees working in Ozon Tekstil. For instance, female employees who work in positions defined according to the qualification of a job in the Headquarters and factories are able to work from home one day a month. Again, in addition to Nursing Room designed for female employees working in the Headquarters, we designed Breastfeeding Rooms for new mothers in the first quarter of

2017. We offer kindergarten services to female employees in Sivas factory.

We believe that active participation of disabled individuals in business life will positively contribute not only to their social life but also to the company's performance on diversity and employee loyalty. Thus, another matter we handle in the scope of our approach to diversity and inclusiveness is the participation of disabled individuals in business. As of the end of 2017, we have had 158 disabled employees in operations in Turkey and 21 disabled employees in Ozon Tekstil operations. Some of these employees work part-time and some are full-time. In addition, our disabled employee quote increases continuously in accordance with our employment needs that increase in parallel to our growth. We try to employ more disabled individuals by keeping constant contact with employment agencies.

## PERFORMANCE MANAGEMENT

We aim to meet business targets, to achieve successful business results and to make high performance a corporate culture through DeFacto Performance Management System which was designed to focus faster and more effectively to corporate strategies and goals and to systematically monitor this improvement.

We evaluate the performance of employees working at domestic and foreign headquarters only at annual and three-monthly basis. We review annual evaluations at sixth month and monitor the realization status of goals. Employee performance cards are gathered under two main groups including personal goals and leadership goals. Our primary condition is to have SMART goals. Feedbacks received from performance management system create information for career management, remuneration management and rewarding processes.

## REMUNERATION MANAGEMENT

In DeFacto, we manage a remuneration process based on systematical methods designed according to objective criteria in general. Within the scope of our remuneration process, we use individual structure calculation tools for employees at Headquarters, Local Stores, International Stores, Blue Collar and Expats departments. We review our strategy every year depending on the economic conditions of the company and the countries we are operating in.

We benefit from a remuneration management system based on a grade structure focusing on work dimensions for employees working at the Headquarter. Every year, we follow the developments in the market and define our competitive strategy in accordance with geographical dynamics.

We apply a process based on stores' segment structure for store employees in Turkey. We identify the total revenue package of our employees based on the responsibility areas and the sales level they create. We have a remuneration systematics focusing on sales level and work force in store employees working abroad. Salaries on position basis vary according to the conditions of the related country.

We define the wages of blue-collar employees according to the seniority. We review and renew wage levels every year, accordingly.

For expat employees, we adjust salaries and fringe benefit packages considering the life costs, risks, distance and other country-specific criteria. Each year, we update these wages according to economic variants and other country-specific conditions, in addition to these parameters.



## TALENT MANAGEMENT

In the talent management process we aim to get better acquainted with the competences and potentials of our employees, thereby realizing career management in the most effective manner, keeping internal career opportunities open and correctly analyzing the competences of our employees for their improvement. We established talent pools by interpreting potential evaluations based on leadership competences together with the performance evaluations of our employees through the new competency model we revised in the reporting period; and defined backup plans for critical positions.

In the scope of talent management, we take actions at the end of each year such as 360 degrees competence assessment, internal and external assessment center implementations, developing special practices based on talents by establishing talent pools, putting into force the young talent programs and the announcements on local and international career opportunities.

Promotion process is applied annually at the headquarters and quarterly at the stores depending on the requirements. In Ozon Tekstil Headquarters and Ozon Tekstil offices, white-collar employees are promoted in March and September, while blue-collar employees are promoted in January.

## EXECUTIVE CANDIDATE PROGRAM

Based on our focus areas and organizational requirements, we aim to gain young talents to DeFacto and raise future leaders within the company by improving their talents.

## Internal Evaluation Center Practices

We started the Internal Evaluation Center practice with an aim to conduct this program with evaluators trained internally. Based on this project, we offer a special training for our internal evaluators to certify them and support their development through several training programs.



As of 2017, 18 internal evaluators are working in Evaluation Center. Thanks to our internal evaluators;

- We develop custom practices for the company,
- We strengthen internal communication, sharing and synergy,
- We develop competencies and talents at different capacities so that employees can benefit throughout their career.

### DEFACTO ACADEMY

Based on its vision "to become a global brand that makes people go WOW" DeFacto Academy works to prepare the organization to the change and transformation, to turn corporate value and culture to sustainable competition advantage, to strengthen employer brand and to raise qualified human resources to the industry.

### LEADERSHIP AND DEFACTO ACADEMY

At DeFacto Academy, we keep the approaches and perspectives that prepare DeFacto for future on the agenda of employees and managers via Leadership Development and Talent Management Programs which are designed in harmony with the corporate culture and values.

"DeFacto's Program on Becoming Global Leaders" to which all DeFacto leaders attended consists of the following 3 main modules: "Departure to Leadership Development Program," "Business-oriented Coaching at DeFacto" Development Program and DeFacto New Generation Global Leaders Program. On the other hand, in the reporting period, we established Basic Development, Occupational Expertise, Advanced Occupational Expertise and Leadership Development programs for business trainings such as "Retailing School" and "Product Management and Innovation School." We wrote down the focus areas, the targets and learning goals and built modular structure of each program.



We defined the learning methods, contents, learning goals and resources of each module. We initiated the internal trainer process to identify content designers and servers.

### TECHNOLOGY AND DEFACTO ACADEMY

We offer mixed learning programs focusing on digital training to employees working at DeFacto Academy. In the light of sustainability of training and development, we offer every opportunity to employees to have uninterrupted and ongoing access to all online platforms. We conduct studies with Defacto Academy Learning System that has an integrated structure with internal digital platforms in order to automatize and speed up most of the operational processes. We provide, follow and report all trainings, training and development tools and activities of all methods available in mixed

development programs assigned to employees via the learning system. In addition, we initiated the studies to integrate performance and competency evaluation processes into digital training program.

### DEFACTO ACADEMY INTERNAL TRAINERS

One of the key missions of DeFacto Academy is to create the organizational memory of the company and reach all employees that require knowledge and experience at the same standards. One of the most powerful resources in turning corporate know-how into a learning tool based on teaching design principles and in transmitting these to employees is the internal trainers.

We record our corporate memory via internal coaching system, strengthen internal communication, sharing

and synergy, offer improvement opportunities to employees for different specialties, and help managers who would be internal trainers, learn faster and internalize HR perspective and practices.

2017 TRAINING STATISTICS	TOTAL TRAINING HOURS (PERSON X HOUR)	AVERAGE TRAINING HOURS PER EMPLOYEE (HOUR/YEAR)
DeFacto Turkey	134,820	16.0
DeFacto Abroad	7,263	3.3
Ozon Tekstil	9,524	11.1

We organize trainings identified according to the requirements of the company and employees based on an annual plan, and offer these trainings by enriching them via different learning methods such as in-class training, on-the-job training, coaching, mentoring, observation/ internship and remote learning.





We aim to support the development of employees' talents and abilities through training and development programs we offer at Ozon Tekstil and increase their motivation and work satisfaction. We provide trainings to Ozon Tekstil employees under these six main groups: trainings that include our vision, mission and values, technical trainings, trainings offered according to legal requirements, personal development trainings and administrative trainings. Managers of the employees and human resources department decide on and apply the training plans and programs according to the results of a competency-based performance evaluation system. In addition to our employees, we offer new horizons to young talents who join our company with the internship programs and give them the right orientations for their career map and help them discover their talents.

We also offer trainings that will benefit the quality and process development of Ozon Tekstil suppliers. In 2017, we organized trainings on subjects such as broken needles - metal detector control procedure and Ozon Tekstil's Red Lines social compliance system for a total of 55 subcontractors operating at different regions in Turkey.

### EMPLOYEE HAPPINESS

We believe that companies can reach their goals only through loyal and high performing employees, and that loyalty and high performance can only be achieved by happy employees.

At DeFacto, we led the way and established Happiness Department, setting a pioneer practice for our sector, in order to create a happy and peaceful environment for our employees and to pay the necessary attention to this subject. In addition to department managers and employees, we positioned all department managers as happiness managers. In the framework of the happiness practices, we determine our actions in a way to improve all processes that concern our

employees. We implement our plans in the light of the feedback we receive from our employees as well as existing conditions.

We periodically apply satisfaction surveys to all DeFacto employees to see the results of employee happiness activities. We share the results of the survey in which we measure the satisfaction, loyalty and motivation indicators, and perform in subjects we define as development areas.

### Instant HR

In 2017, we put into practice the "Instant HR" application in order to give the right and the fastest response to employee demands, to support development and improvement processes of services and products offered by Human Resources department, to increase communication productivity, and thus, to increase the happiness level of DeFacto employees.

Instant HR is a system established to respond to the questions and demands of HR employees about any subject of human resources via a professional call center; all employees around Turkey can refer to this system.

In order to increase happiness level of Ozon Tekstil employees, we prepare annual and monthly action plans in subjects open to improvement by considering into various factors that include the results of customer satisfaction survey. In 2017, we also put into practice "Happiness Room," "Women Nursery Room" and "Breastfeeding Room" and create their action plans.

### WORK - LIFE BALANCE AND EMPLOYEE ENGAGEMENT

Starting from the fact that most of our employees belong to generation Y and that this generation places much importance on socialization in business life, we strove to build our working environment as a living space that strengthens internal communication.



#### OCCUPATIONAL HEALTH AND SAFETY POLICY

At every level of our company, we adopt the opinion that "No task is important or urgent enough to risk human health and life safety." It is our main aim to prevent occupational accidents and diseases that may take place in our company. For this aim, we will:

- Minimize nonconformities at the working environment about occupational safety,
- Continue with occupational safety trainings effectively,
- Ensure health and safety of our customers, personnel, subcontractors and all related parties throughout the time they spend at our premises,
- Focus on preventive health services rather than remedial ones at our health
- unit, continue with and provide durability to preventive health services and periodical health examinations of our personnel,
- Fulfill our legal obligations and the determined OHS conditions,
- Provide durability through continuous improvement activities,
- Keep our policy open to all related parties.

To help our employees to achieve work-life balance, we offer services they can always enjoy such as sports, massage, hairdresser and healthy nutrition consultancy. Employees can enjoy their breaks more thanks to the social clubs we established in addition to "happiness rooms" and "happiness hallways." Another practice we initiated to protect work-life balance is flexible working hours. Our employees may start working between 07.00 to 09.00 am and stop working between 05.00 to 07.00 pm.

### DEFAC TO SOCIAL CLUBS

We lead the way in helping employees obtain information and talent in culture, art and sports and in establishing internal clubs in which employees are able to socialize in teams. These are DeFacto Music Club, DeFacto Dance Club, DeFacto Theatre Club DeFacto Photography Club, DeFacto Travel Club, and DeFacto Sports Clubs that offers tennis, basketball, volleyball, rowing, football, aikido, yoga, and chess.

Professional trainers and consultants provide free trainings for our employees in these social clubs. Club members organize several events and shows in their branches and represent DeFacto by competing in organizations such as DragonFest, Corporate Games and Business Cup.

### DeTALKS

In this DeTalks program, we organize seminars open to general participation of DeFacto employees. Experts share their knowledge in different subjects including health, career, social life, family, hobby, psychology, communication and leadership.

### INTERNAL COMMUNICATION ACTIVITIES

We are adopting various communication activities in order to establish a positive work environment at DeFacto, to create loyalty among employees, to expand the corporate

culture, to effectively meet the requests, suggestions, demands and expectations of our employees, and to be an organization that learns. In this context, we make use of different communication media such as news and announcements, Şirket-i Muhabbet meetings, coordination meetings, year-end events, training post, Leadership Conversations and Depar TV.

We execute similar activities for Ozon Tekstil employees to help them establish work-life balance and to improve internal communication. For instance, we provide one-day off to our employees at their birthdays. Moreover, flexible working hours are an opportunity offered to employees working at Ozon Tekstil operations. Besides, in order to increase internal communication, we organize Football Tournaments to which Ozon Tekstil employees participate. We introduce the winner team to the company to raise motivation. Ozon Tekstil employees represent the company in external sports matches.

### OCCUPATIONAL HEALTH AND SAFETY

It is one of our sustainability priorities to offer our employees healthy and safe working conditions. DeFacto Occupational Health and Safety Policy defines the basic principles that must be taken into consideration during the execution of OHS practices in all workplaces.

As a founding policy, we have committed to becoming a leading corporation in the sector causing minimum harm and maximum benefits to humanity during and at the end of all activities.

Based on DeFacto OHS Policy and legal legislation, occupational health and safety must be systematically managed at all of our offices, factories, warehouses and stores that operate within DeFacto and Ozon Tekstil. In order to put this into practice, all employees have to work together apart from occupational safety experts and workplace doctors who



work in the company. In this context, OHS is managed with a participatory approach.

One of the most effective tools to give voice to different opinions at OHS management is the OHS Committees. There are 3 OHS Committees at DeFacto operations that work with 31 employee representatives out of 126 members; whereas there are 5 OHS Committees at Ozon Tekstil operations that work with 5 employee representatives out of 42 members.

Our OHS Performance

It is one of our material aims to make it possible that the occupational health and safety culture is adapted by our employees and our performance in this regard continuously improves. We keep records of performance data such as accident frequency rate, lost day rate and absentee rate, we include in our business plans the necessary precautions to improve our performance and implement them accordingly.

DEFACTO TURKEY OPERATIONS			
	2015	2016	2017
Accident frequency rate	1.26	1.48	1.57
Lost time rate	4.91	2.91	2.82
Absentee rate	0.02	0.03	0.02
OZON TEKSTİL			
	2015	2016	2017
Accident frequency rate	2.18	3.49	1.46
Lost time rate	8.58	8.72	5.46
Absentee rate	0.05	0.05	0.06

STORES

Most of our employees are working at the stores; thus, stores play an important role in OHS management. All store employees, primarily the store managers, are responsible for OHS management. We provide OHS trainings periodically to inform our employees about the relevant laws

and regulations and the corporate practices. Instructions for preventing OHS risks at stores are available in the Store OHS Manual. In 2018, we are going to update the OHS Manual according to international standards. We are planning to translate OHS Manual into English in 2018 and into Arabic, Russian and other languages in 2019.

All stores in Turkey are audited three times a year by independent institutions based on the audit plans prepared for OHS risks. In case of any inconsistencies during these audits, we expect the store management to take preventive and corrective actions at longest in six months. OHS performance is among the primary subjects of domestic and foreign store managers and is reflected on personal financial performance.

Our domestic and foreign supervisors conduct OHS audits in accordance with an audit list consisting of approximately 45 criteria in addition to the general store compliance audits. New items can be added to this list based on the legal regulations of the related countries. Turkey adopts this check list, in case of inefficient laws in the related country. The compliance with the criteria in the OHS control list is shared with store managers. Based on the compliance to OHS legislation, OHS audits are conducted yearly by an independent audit firm, which we call the "third eye OHS audits."

Warehouse

In order that our activities at the Çerkezköy warehouse are managed at international standards for occupational health and safety, we obtained the OHSAS 18001 Occupational Health and Safety Management System certificate for this location in 2012. This management system is audited by an independent audit firm every year in compliance with OHSAS standards and our certificate is renewed accordingly. We provide an average of 8 hours of OHS training per person

annually to all employees at the Çerkezköy warehouse including both the direct and indirect employees.

Ozon Tekstil

Compliance to all OHS regulations, codes of conduct and national and international standards is our priority in Ozon Tekstil operations. Our target in OHS is to prevent occupational accidents and occupational diseases that may occur in our workplaces. Since 2013, we are a member of SEDEX, a social audit organization that provides global supply chain audits. We review documents of OHS and personnel management, examine the work environment and the field, and make interviews with employees in accordance with SEDEX social compliance audits operated by an independent audit company. In all our workplaces, OHS Committees gather in periods defined by the regulation according to danger status. Employees share their views via suggestion, request and complaint boxes; the information gathered is analyzed by authorized institutions to apply remedial, corrective and preventive actions.

OHS experts work full time at the Headquarters, warehouses and Sivas factories. Moreover, workplace doctors work

ERGONOMICS

In recent years, we have started to develop practices on ergonomics with the increasing attention on OHS. We will take more concrete steps in the next period. Firstly, we will initiate an ergonomics development program that will be valid between 2018 and 2020. There are various examples we plan to put into practice in this regard. For instance, we aim to use ergomat mats in all locations that require a static stand beginning from the next year.

in all locations, and other health personnel working full time at Sivas factories gives service to the employees.

OHS Trainings

We organize OHS trainings to inform our employees about OHS and enhancing their awareness in this regard also with the consideration of legislation in Turkey. We provide that not only our own employees but also our subcontractors and their suppliers receive the trainings. We make sure the trainings that encompass refresher trainings and subjects are available in the regulations as e-trainings to our employees. In-class training subjects are monitored over a remote training system.

The six-month development program provided to newly recruited store manager candidates also includes a full day of OHS training. In addition, we provide 4 hours of OHS training in the orientation which is mandatory for all employees who are newly recruited in the Headquarters. Additionally, in 2016, we assigned a mandatory e-training program on OHS per person for our store employees; thus, the employees started to receive this training.

In 2017, we offered a total of 4,108 person-hour OHS training to Ozon Tekstil employees and a total of 9,602 person-hour OHS training to store employees.

PARTNERSHIPS WITH UNIVERSITIES

In 2017, we conducted studies on "product positioning regarding fire exits in stores, rack optimization in case of fire and fire prevention systems" through the cooperation protocol we signed with Institute of Science at Sakarya University; and obtained results to improve our emergency processes.





# COMMUNITY DEVELOPMENT



Highlights from 2017



DeFacto Happiness Ambassadors organized 8 events through 1,687 hours of voluntary work.



Up to day, our employees organized 35 events through 1,833 hours within the working hours and 5,697 hours of voluntary work.

## Related Sustainable Development Goals





It is our corporate responsibility approach to create positive impact on societies in which we operate and live and to support sustainable development. In this regard, we support UN Sustainable Development Goals and shape our activities on community development based on these goals.

We mobilize our value chain encompassing a wide geography from stores to suppliers in accordance with community development on the voluntary basis and aim to expand the value we created.

### EMPLOYEE VOLUNTEERISM

In 2015, we established DeFacto Happiness Ambassadors Group in order to increase the number of points we touch upon the society through developmental studies and also to increase the sense of belonging and personal competencies. Our activities that were initiated with Headquarter employees continued to grow with the participation of on-site teams and volunteers.

Participation in DeFacto Happiness Ambassadors depends only on volunteerism. Voluntary employees can not only develop their unique projects but can also cooperate with NGOs we are in contact with. We conduct several studies with the Private Sector Volunteers Association with the aim of obtaining support for more effective structuring of the activities of the Happiness Ambassadors Group and benefiting from their expertise about implementation.

Volunteers may take part in the projects within or out of work hours. Two extra days-off for volunteerism is provided to volunteers during working hours. Since the day of its foundation, DeFacto Happiness Ambassadors organized 35 events through a total of 5,697 hours of voluntary work. 1,833 hours of it were performed as work hour volunteerism. In 2017, they provided 8 events through 1,687 hours of voluntary work. The longest projects we supported are the Vocational High School Coaching Program that support the development of vocational high school education which we think has

high multiplier effect to sustainable development and executed by Private Sector Volunteers Association, as well as Mentorship Program conducted by Young Success Foundation.

### CORPORATE MEMBERSHIPS

Partnerships plays an important role in solving multi-dimensional and large-scale issues. The result obtained by adding the competency and potentials of a company to that of another company has much higher impact. Thus, 17<sup>th</sup> goal of UN Sustainable Development Goals is to establish partnerships for sustainable development. Based on this approach, we work together with NGOs that operate both in the industry and in economic, social and environmental areas, professional societies and several initiatives. We develop memberships with these institutions, participate in their operational and management organs, and develop projects and cooperation based on mutual targets.

#### PRIMARY GOALS OF THE DEFACTO HAPPINESS AMBASSADORS GROUP:

- Social Benefit and Awareness: Increasing the type and number of projects all employees can contribute to for maximizing social benefits
- Enhancing Employee Competence: Carrying out at least one project per month, assigning different project leaders within the company to each project thereby enhancing planning, analysis, problem solving and management skills of both the project leader and the volunteers
- Enhancing Employee Loyalty: Creating opportunities and an environment that would motivate our employees for enhancing loyalty in the mid and long term thereby contributing to the sustainability of our company.



### CORPORATE MEMBERSHIPS AND INITIATIVES WE SIGNED

#### DeFacto

- United Brands Association of Turkey (BMD)
- United Nations Global Compact (UNGC)
- Environmental Protection and Packaging Waste Recovery and Recycling Foundation (ÇEVKO)
- Istanbul Textile and Apparel Exporters' Association (ITKIB)
- Women's Empowerment Principles (WEPS)
- Private Sector Volunteers Association
- Turkish Clothing Manufacturers' Association
- Turquality

#### Ozon Tekstil

- Istanbul Textile and Apparel Exporters' Association (ITKIB)
- Istanbul Apparel Exporters Association (IHKIB)
- Environmental Protection and Packaging Waste Recovery and Recycling Foundation (ÇEVKO)
- Turkish Quality Association (Kal-Der)



# PERFORMANCE DATA

ENVIRONMENTAL PERFORMANCE INDICATORS			
	2015	2016	2017
Turkey total store energy consumption (kWh)	45,502,107	52,901,651	61,694,196
Turkey store energy intensity (kWh/m²)	18.57	16.04	14.89
Total forklift fuel consumption (l - Diesel)	7,000	7,000	5,960
Energy savings by energy efficiency projects (kWh)	15,000	15,000	50,000
Water use intensity (m³/m²)	10.66	17.42	13.82
Total hazardous waste by disposal method in production facilities (Ton)	-	-	29.76
<i>Total recovery</i>	-	-	-
<i>Disposal</i>	-	-	29.76
Total non-hazardous waste by disposal method in production facilities (Ton)	-	-	664.34
<i>Total recovery</i>	-	-	664.34
<i>Disposal</i>	-	-	-
Total paper waste (ton)	7.60	8.00	7.20
Paper waste per employee (kg/person)	10.00	9.00	7.20
Total chemical substance use (ton)	42.89	49.45	48,41
Chemical substance use per piece produced in Ozon Tekstil (gr/piece)	4.2	2.7	2.7
SOCIAL PERFORMANCE INDICATORS			
	2015	2016	2017
Accident frequency rate			
<i>Production employees</i>	2.18	3.49	1.46
<i>Retail employees</i>	2.18	1.48	1.57
Lost day rate			
<i>Production employees</i>	8.58	8.72	5.46
<i>Retail employees</i>	4.91	2.91	2.82
Absentee rate			
<i>Production employees</i>	0.05	0.05	0.06
<i>Retail employees</i>	0.02	0.03	0.02
OHS trainings (person-hour)	-	-	13,710
Environmental trainings (person-hour)	-	-	560
EMPLOYEE DEMOGRAPHICS			
	2017		
Total Workforce	Male	Female	
<i>Turkey</i>	4,902	5,197	
<i>DeFacto Employees</i>	3,922	4,519	
<i>Ozon Tekstil Employees</i>	537	318	
<i>Outsource Employees</i>	443	360	
<i>Abroad</i>	1,156	1,044	
Total Employees by Category			
<i>Turkey</i>			
<i>Blue-Collar</i>	3,734	4,203	
<i>White-Collar</i>	725	634	
<i>Abroad</i>			
<i>Blue-Collar</i>	1,084	979	
<i>White-Collar</i>	72	65	
Number of Disabled Employees		179	
Senior Management Structure (Number)			
<i>Turkey</i>	37	10	
<i>Abroad</i>	11	2	
Mid-level Management Structure (Number)			
<i>Turkey</i>	214	65	
<i>Abroad</i>	19	8	

# GRI CONTENT INDEX



INDICATORS	DESCRIPTIONS AND PAGE NUMBERS		OMISSIONS
GRI 101: Foundation 2016			
GRI 102: General Disclosures 2016			
Corporate Profile			
102-1	Contacts (p.65)		
102-2	www.defacto.com.tr		
102-3	Strategy and Governance (p.14-15); Contacts (p.65)		
102-4	Strategy and Governance (p.14-15)		
102-5	Shareholder Structure: Zeki Cemal Özen (66.5%), İhsan Ateş (13.7%), Şahin Demir (4.57%), İdris Özçelik (4.57%), DF Retail Holdco Coöperatief U.A. (8.66%), OZN Investrments S.á.r.l (2%)		
102-6	Strategy and Governance (p.10, 14-15)		
102-7	Strategy and Governance (p.10, 12-15)		
102-8	Employees (p.48-49); Performance Data (p.62)		
102-9	Sustainability in the Supply Chain (p.39)		
102-10	No significant change has been ocured neither in company's operational or financial structure nor supply chain		
102-11	Strategy and Governance (p.16-17); Product Responsibility and Customer Satisfaction (p.30-34); Sustainability in the Supply Chain (p.39-40)		
102-12	Community Development (p.61)		
102-13	Community Development (p.61)		
Strategy			
102-14	CEO Message (p.4-5)		
102-15	CEO Message (p.4-5); Strategy and Governance (p.21)		
Ethics and Integrity			
102-16	Strategy and Governance (p.18)		
Governance			
102-18	Strategy and Governance (p.16)		
Stakeholder Engagement			
102-40	Strategy and Governance (p.22)		
102-41	We do not have employees covered by collective bargaining agreement.		
102-42	Strategy and Governance (p.22)		
102-43	Strategy and Governance (p.22)		
102-44	Strategy and Governance (p.22); Product Responsibility and Customer Satisfaction (p.34)		
Reporting Practices			
102-45	About the Report (p.3)		
102-46	About the Report (p.3); Strategy and Governance (p.21)		
102-47	Strategy and Governance (p.21)		
102-48	About the Report (p.3)		
102-49	About the Report (p.3)		
102-50	About the Report (p.3)		
102-51	About the Report (p.3)		
102-52	About the Report (p.3)		
102-53	Contacts (p.65)		
102-54	About the Report (p.3)		
102-55	GRI Content Index (p.63-65)		
102-56	About the Report (p.3), GRI Content Index (p.63-65), Legal Disclaimer (p.65)		
MATERIAL ISSUES			
STANDARDS	INDICATORS	DESCRIPTIONS AND PAGE NUMBERS	OMISSIONS
Environment			
GRI 103: Management Approach 2016	103-1 Explanation of the material topic and its boundary	Strategy and Governance (p.21); Environment (p.44)	
	103-2 The management approach and its components	Strategy and Governance (p.20-21); Environment (p.42-45)	
	103-3 Evaluation of the management approach	Strategy and Governance (p.20-21);Sustainability Goals (p.6-7); Environment (p.42, 44)	



MATERIAL ISSUES			
STANDARDS	INDICATORS	DESCRIPTIONS AND PAGE NUMBERS	OMISSIONS
GRI 301:Materials 2016	301-1 Materials used by weight or volume	Performance Data (p.62)	
GRI 302: Energy 2016	302-3 Energy intensity	Environment (p.44); Performance Data (p.62)	
	302-4 Reduction of energy consumption	Environment (p.44); Performance Data (p.62)	
GRI 303: Water 2016	303-1 Water withdrawal by source	Performance Data (p.62)	
	306-2 Water sources significantly affected by withdrawal of water	Environment (p.45); Performance Data (p.62)	
Business Ethics and Compliance			
GRI 103: Management Approach 2016	103-1 Explanation of the material topic and its boundary	Strategy and Governance (p.18, 21);	
	103-2 The management approach and its components	Strategy and Governance (p.18-21);	
	103-3 Evaluation of the management approach	Strategy and Governance (p.18-21); Sustainability Goals (p.6-7);	
GRI 205: Anti-Corruption 2016	205-3 Confirmed incidents of corruption and actions taken	No such case of noncompliance has observed during the reporting period.	
GRI 307: Environmental Compliance2016	307-1 Non-compliance with environmental laws and regulations	No such case of noncompliance has observed during the reporting period.	
GRI 419:Socio-Economic Compliance 2016	419-1 Non-compliance with laws and regulations in the social	No such case of noncompliance has observed during the reporting period.	
Occupational Health and Safety			
GRI 103: Management Approach 2016	103-1 Explanation of the material topic and its boundary	Strategy and Governance (p.21); Employees (p.55-57)	
	103-2 The management approach and its components	Strategy and Governance (p.20-21); Employees (p.55-57)	
	103-3 Evaluation of the management approach	Strategy and Governance (p.20-21); Sustainability Goals (p.6-7); Employees (p.55-57); Performance Data (p.62)	
GRI 403: Occupational Health and Safety 2016	403-1 Workers representation in formal joint management-worker health and safety committees	Employees (p.55)	
	403-2 Types of injury and rates of injury, occupational diseases, lost days, and absenteeism, and number of work-related fatalities	Employees (p.56)	
R&D and Innovation			
GRI 103: Management Approach 2016	103-1 Explanation of the material topic and its boundary	Strategy and Governance (p.21); Design and Innovation (p.24-26)	
	103-2 The management approach and its components	Strategy and Governance (p.20-21); Design and Innovation (p.24-26)	
	103-3 Evaluation of the management approach	Strategy and Governance (p.20-21); Design and Innovation (p.24-26)	
GRI 203:Indirect Economic Impacts 2016	203-2 Significant indirect economic impacts	Design and Innovation (p.24-26)	
Brand and Reputation			
GRI 103: Management Approach 2016	103-1 Explanation of the material topic and its boundary	Strategy and Governance (p.21);	
	103-2 The management approach and its components	Strategy and Governance (p.20-21); Strategy and Governance (p.16); Product Responsibility and Customer Satisfaction (p.34-35)	
	103-3 Evaluation of the management approach	Strategy and Governance (p.20-21); Sustainability Goals (p.6-7); Strategy and Governance (p.16); Product Responsibility and Customer Satisfaction (p.34)	
Supply Change Management			
GRI 103: Management Approach 2016	103-1 Explanation of the material topic and its boundary	Strategy and Governance (p.21); Sustainability in the Supply Chain (p.36-41)	
	103-2 The management approach and its components	Strategy and Governance (p.20-21); Sustainability in the Supply Chain (p.36-41)	
	103-3 Evaluation of the management approach	Strategy and Governance (p.20-21); Sustainability Goals (p.6-7); Sustainability in the Supply Chain (p.36-41)	

MATERIAL ISSUES			
STANDARDS	INDICATORS	DESCRIPTIONS AND PAGE NUMBERS	OMISSIONS
GRI 308: Supplier Environmental Assessment 2016	308-2 Negative environmental impacts in the supply chain and actions taken	Sustainability in the Supply Chain (p.40-41)	
GRI 408: Child Labor 2016	408-1 Operations and suppliers at significant risk for incidents of child labor	Sustainability in the Supply Chain (p.40-41)	
GRI 409: Forced or Compulsory Labor 2016	409-1 Operations and suppliers at significant risk for incidents of forced or compulsory labor	Sustainability in the Supply Chain (p.40-41)	
GRI 414: Supplier Social Assessment 2016	414-2 Negative social impacts in the supply chain and actions taken	Sustainability in the Supply Chain (p.40-41)	
Employee Development and Talent Management			
GRI 103: Management Approach 2016	103-1 Explanation of the material topic and its boundary	Strategy and Governance (p.21); Employees (p.47-54)	
	103-2 The management approach and its components	Strategy and Governance (p.20-21); Employees (p.47-54)	
	103-3 Evaluation of the management approach	Strategy and Governance (p.20-21); Sustainability Goals (p.6-7); Employees (p.47-54)	
GRI 404: Training and Education 2016	404-1 Average hours of training per year per employee	Employees (p.53); Performance Data (p.62)	
	404-2 Programs for upgrading employee skills and transition assistance programs	Employees (p.51-55)	
	404-3 Percentage of employees receiving regular performance and career development reviews	Employees (p.50)	
GRI 406: Non-discrimination 2016	406-1 Incidents of discrimination and corrective actions taken	No such case of noncompliance has observed during the reporting period.	

**CONTACTS**

DeFacto Perakende Tic. AŞ

**Headquarters:**

DeFacto Plaza Basın Ekspres Yolu Bahariye Cad. No.31  
34303 Halkalı - Küçükçekmece İSTANBUL

**T:** +90 212 715 1212

**F:** +90 212 886 5129

**For more information or submitting your views and suggestions about this report:**

You may visit [www.defacto.com.tr](http://www.defacto.com.tr) or please email us from [sustainability@defacto.com.tr](mailto:sustainability@defacto.com.tr)

**Reporting Consultant & Design**



**Kiymet-i Harbiye**

[info@kiymetiharbiye.com](mailto:info@kiymetiharbiye.com)

**T:** +90 (212) 279 13 13

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