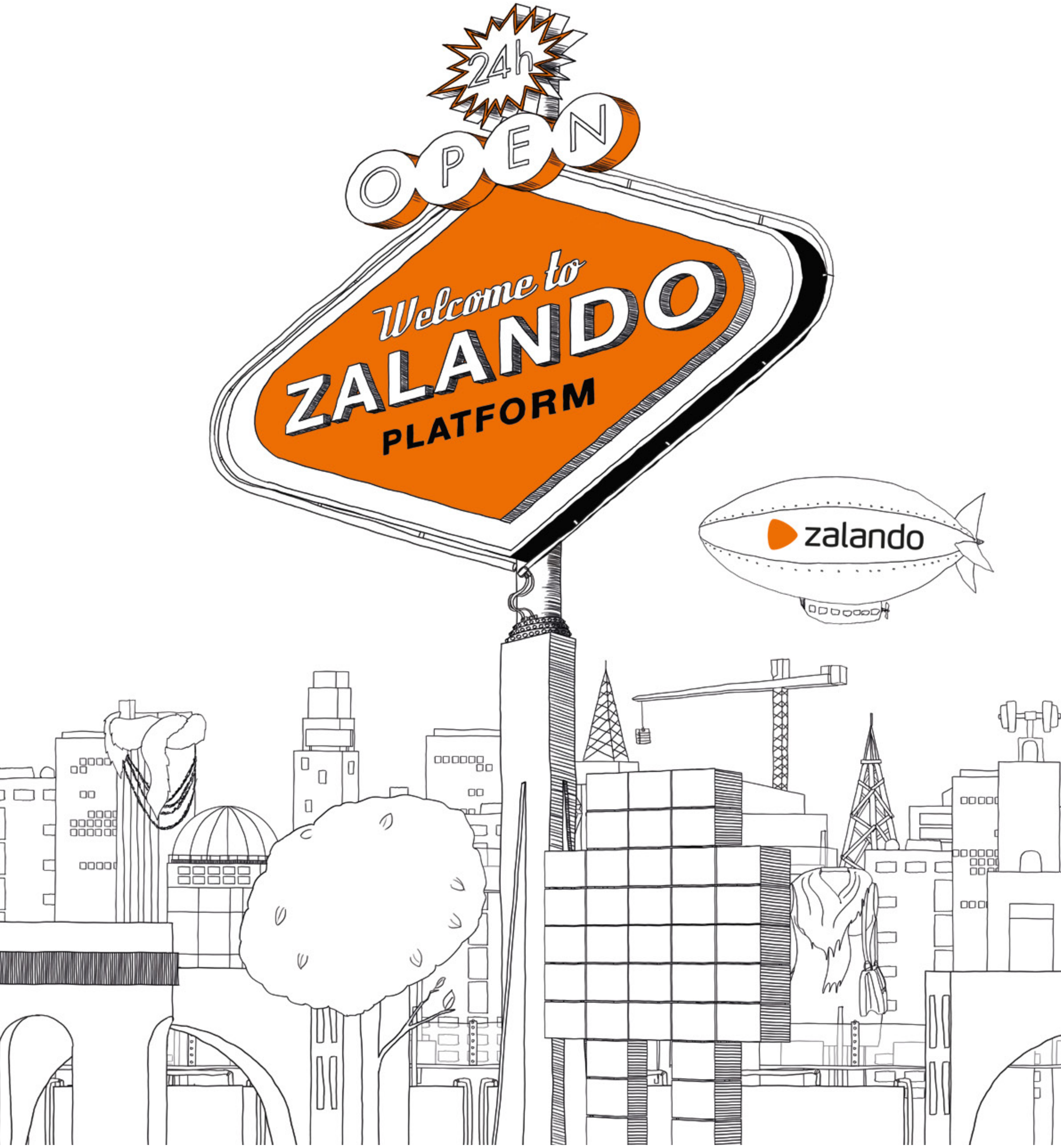
FINANCIAL STATEMENTS AND COMBINED MANAGEMENT REPORT 2015



zalando

00 CONTENT

01.1 BALANCE SHEET

01 ASSETS

IN EUR M	DEC 31, 2015	DEC 31, 2014
A. Fixed assets		
I. Intangible assets		
Internally generated industrial and similar rights and assets	22.4	19.7
Industrial rights and similar rights and assets and licenses in such rights and assets	8.0	6.7
Prepayments	9.8	2.6
	40.2	*29.0*
II. Property, plant and equipment		
Plant and machinery	0.4	0.0
Other equipment, furniture and fixtures	17.7	11.2
Prepayments and assets under construction	0.3	0.2
	18.4	*11.4*
III. Financial assets		
Shares in affiliates	137.5	113.4
Investments	9.4	0.0
	146.9	*113.4*
	205.5	*153.8*
B. Current assets		
I. Inventories		
Merchandise	482.4	337.1
Prepayments	1.4	0.9
	483.8	*338.0*
II. Receivables and other assets		
Trade receivables	204.0	183.7
Receivables from affiliates	22.7	18.2
Other assets	52.2	19.5
	278.9	*221.4*
III. Securities	**594.7**	**520.0**
IV. Cash on hand and bank balances	**482.6**	**545.5**
	1,840.0	*1,624.9*
C. Prepaid expenses	**6.9**	**5.3**
D. Deferred tax assets	**46.3**	**0.0**
Total	**2,098.7**	**1,784.0**

02 EQUITY AND LIABILITIES

IN EUR M	DEC 31, 2015	DEC 31, 2014
A. Equity		
I. Subscribed capital	**247.1**	**244.8**
less nominal value of treasury shares Conditional capital: EUR 90.4m (prior year: EUR 16.5m)	–0.1	0.0
	247.0	*244.8*
II. Capital reserve	**1,151.3**	**1,133.3**
III. Loss carryforward	**–234.7**	**–270.5**
IV. Net income for the year	**127.2**	**35.7**
	1,290.8	*1,143.3*
B. Government grants	1.3	3.2
C. Provisions		
Tax provisions	18.1	6.1
Other provisions	185.4	140.6
	203.5	*146.7*
D. Liabilities		
Prepayments received on account of orders	8.6	6.7
Trade payables	507.4	390.8
Liabilities to affiliates	3.0	21.8
Other liabilities thereof for taxes: EUR 40.6m (prior year: EUR 32.1m) thereof for social security: EUR 0.0m (prior year: EUR 0.1m)	83.2	69.4
	602.2	*488.7*
E. Deferred income	**0.9**	**0.1**
F. Deferred tax liabilities	**0.0**	**2.0**
Total	**2,098.7**	**1,784.0**

02.1 INCOME STATEMENT

03 INCOME STATEMENT

IN EUR M	JAN 1–DEC 31, 2015	JAN 1–DEC 31, 2014
1. Revenue	2,950.8	2,205.7
2. Other own work capitalized	22.4	18.7
3. Other operating income thereof income from currency translation: EUR 30.0m (prior year: EUR 8.2m)	80.8	94.5
	3,054.0	*2,318.9*
4. Cost of materials Cost of raw materials, consumables and supplies and of purchased merchandise	–1,621.1	–1,240.1
5. Personnel expenses		
a) Wages and salaries	–148.5	–120.4
b) Social security, pension and other benefit costs thereof for old-age pensions: EUR 0.1m (prior year: EUR 0.1m)	–21.9	–17.2
6. Amortization of intangible assets and depreciation of property, plant and equipment	–22.1	–18.2
7. Other operating expenses thereof expenses from currency translation: EUR 28.8m (prior year: EUR 8.7m)	–1,148.8	–879.4
	–2,962.4	*–2,275.3*
8. Income from profit transfers	2.3	3.1
9. Other interest and similar income thereof from affiliates: EUR 0.2m (prior year: EUR 0.1m) thereof from discounting of longterm provisions EUR 0.1m (prior year: EUR 0.0m)	4.3	1.1
10. Write-downs of financial assets	0.0	–0.1
11. Interest and similar expenses	–7.2	–3.9
	–0.6	*0.2*
12. Result from ordinary activities	*91.0*	*43.8*
13. Income taxes thereof income from changes in deferred taxes: EUR 48.3m (prior year: expenses EUR 2.0m)	*36.2*	*–8.1*
14. Net income for the year	**127.2**	**35.7**

03.1 NOTES TO THE FINANCIAL STATEMENTS

A GENERAL DISCLOSURES ON CONTENT AND CLASSIFICATION OF THE FINANCIAL STATEMENTS

The Company is a large corporation pursuant to section 267 (3) HGB ["Handelsgesetzbuch": German Commercial Code].

The financial statements for the fiscal year were prepared in accordance with the accounting provisions of section 242 et seq. HGB and the supplementary provisions for public companies (section 264 et seq. HGB). The provisions of the AktG ["Aktiengesetz": German Stock Corporation Act] in conjunction with Art. 61 EU CR 2157/2001 on preparing annual financial statements were also observed.

The income statement has been prepared using the nature of expense method in accordance with section 275 (2) HGB.

B ACCOUNTING AND VALUATION METHODS (SECTION 284 (2) NO. 1 HGB)

The accounting and valuation methods applied comply with the provisions of HGB (sections 238 to 263 HGB) as well as the relevant provisions of AktG in conjunction with Art. 61 EU CR 2157/2001. Furthermore, the Company observed the supplementary provisions governing the accounting and valuation methods that apply to large corporations.

The Company has made use of the option pursuant to section 248 (2) HGB to capitalize internally generated intangible assets and amortizes these assets, if they have a definite life. Amortization is charged using the straight-line method over an economic useful life of three years. The cost of internally generated intangible assets includes direct costs as well as a proportionate share of overheads.

Intangible assets purchased from third parties are recognized at acquisition cost and are amortized if they have a definite life. Amortization is charged using the straight-line method over an economic useful life of three to eight years.

Property, plant and equipment are recognized at acquisition cost and depreciated if they have a definite life. Depreciation of property, plant and equipment is charged pro rata temporis using the straight-line method. Depreciation is charged over the following useful lives:

04 USEFUL LIVES

	YEARS
Leasehold improvements	11–17
Plant and machinery	5–15
Furniture, fixtures and office equipment	2–15

Low-value assets (acquisition or production cost of between EUR 150.01 and EUR 1,000.00) are recorded in a collective item and depreciated over five years. Assets with an acquisition cost not exceeding EUR 150.00 are expensed upon acquisition.

With regard to financial assets, equity investments are recognized at the lower of cost or market. The attributable values were calculated based on the capitalized earnings value of the respective interest in accordance with IDW AcP HFA 10.

Merchandise is recognized at acquisition cost factoring in the weighted average pursuant to section 240 (3) HGB or taking into account the lower fair value (market prices). Apart from customary retentions of title, no inventories have been pledged as security to third parties.

Receivables and other assets are stated at their nominal value. Impairments in the value of trade receivables due from mail order customers are recognized using portfolio-based specific allowances calculated with the help of country-specific allowance rates based on how long they are past due and other factors with an impact on value.

Customer returns that had not yet been completely processed, but were under the control of the Company by the reporting date, are deducted from receivables.

Other uncollectible receivables are written off individually in full.

Securities classified as current assets are recognized at acquisition cost or, if applicable, at the lower listed or market prices on the reporting date in accordance with section 253 (4) HGB.

Cash and cash equivalents are recognized at nominal value.

Prepaid expenses include payments made prior to the reporting date that relate to expenses for a particular period after this date.

Deferred taxes stem from temporary differences between the carrying amounts of assets, liabilities, prepaid expenses and deferred income in the statutory accounts and their tax accounts and from unused tax losses. Deferred taxes are measured using a tax rate of 30.5% (prior year: 29.125%). This comprises corporate income tax, trade tax and the solidarity surcharge of Zalando SE including their controlled companies and subsidiaries. Deferred tax assets and liabilities are offset against each other.

Government grants report claims for investment subsidies and grants related to income that have been approved but not yet been recorded with effect on income. Revenue recognition is performed in line with the expense recognition of the subsidized items.

Other provisions account for all recognizable risks and uncertain liabilities that relate to the past fiscal year and were identified by the date on which the financial statements were finalized. They are recognized at the settlement value deemed necessary according to prudent business judgment.

Zalando granted options to management that entitle the beneficiaries to purchase shares in the Company after working for the Company for a certain period of time (equity-settled share-based payment awards). Zalando recognizes share-based payment awards – where possible – in accordance with the international provisions of IFRS 2 and recognizes the personnel expenses incurred in the fiscal year at an equal amount in the capital reserve under equity.

Personnel expenses incurred in the fiscal year for phantom options (cash-settled share-based payments) are accounted for by recognizing other provisions.

The expenses for share-based payment awards are calculated using graded vesting, which means that the plan expense gradually becomes smaller over the course of the vesting period.

Provisions for virtual employee stock options are valued based on best estimates of the amount and when the obligation is expected to be incurred.

Revenue recognition was adjusted to reflect an appropriate provision for returns expected. The provision is made using the effective gross method. According to the gross method, in addition to the profit share attributable to returns, the cost of materials for expected returns is also deducted from revenue. In addition, a provision is also recognized for handling costs of the expected returns.

Liabilities are recorded at the settlement value.

Liabilities from the sale of gift vouchers are recognized in full upon addition and adapted to the anticipated utilization over time.

The Company controls the liquidity risk by means of ongoing planning and monitoring of liquidity. To optimize the terms of payment, reverse factoring agreements have been entered into with various suppliers and with factors. Under these agreements, the factor purchases the respective supplier receivables due from Zalando. They are presented under trade payables on the face of the balance sheet.

Receivables and liabilities in foreign currency are translated at the mean closing rate in accordance with section 256a HGB.

The risk to be hedged relates partly to changes in the value of purchases made in USD and GBP. Another part of the risk to be hedged relates to sales in foreign currency, including CHF, DKK, GBP, NOK, PLN and SEK. Under the hedging concept set out by management, ZALANDO SE hedges some pending transactions with portfolio hedges.

Derivative financial instruments with matching amounts and maturities were used as hedges. The hedging instruments have a term of up to twelve months. The derivative financial instruments also comprise pending transactions. Forward exchange contracts and the corresponding cash flows from orders qualify as hedges as defined by section 254 HGB.

The net hedge method is initially applied to pending transactions and the corresponding forward exchange contracts. Changes in the value of forward exchange contracts are therefore not recognized if they are offset by changes in the value of the underlying. Once a liability has been recognized, the fair value through net income method is applied to changes in the value of liabilities and forward exchange contracts. Changes in the value of hedged transactions and the opposite changes in the value of forward exchange contracts are then recognized through profit and loss.

The market value of the forward exchange contracts is based on the ECB reference rates taking into account the forward discounts and premiums customary for the market. If ineffectiveness is identified, the negative market value of the corresponding derivative financial instrument is recorded in the provision for potential losses through profit and loss. The positive market value of the corresponding instruments is not recognized.

Following receipt of the invoice, changes in the value of the trade payables resulting from the orders are hedged for purchases in foreign currency. For sales in foreign currency, the resulting trade receivables are hedged following delivery to the customer.

C NOTES TO THE BALANCE SHEET

FIXED ASSETS

The development of the individual fixed asset items, including depreciation and amortization for the fiscal year, is shown in the statement of changes in fixed assets (attachment A to these notes).

Development costs for internally generated intangible assets of EUR 22.4m (prior year: EUR 18.7m) were capitalized in the fiscal year. As in the prior year, development costs were solely incurred for the development of software. The immaterial research costs were recognized directly in profit and loss.

With regard to financial assets, impairments totaling EUR 0.1m were recognized on Zalando S.r.l., Milan, Italy, in the prior year.

LIST OF SHAREHOLDINGS CLASSIFIED AS FIXED FINANCIAL ASSETS

The Company held shareholdings in the following affiliates and equity investments as of December 31, 2015:

05 LIST OF SHAREHOLDINGS

NO.	COMPANY	COMPANY DOMICILE	CURRENCY
Subsidiaries			
1	zLabels GmbH	Berlin	EUR
2	Zalando Operations GmbH	Berlin	EUR
3	Zalando Logistics SE & Co. KG	Brieselang	EUR
4	Zalando Logistics Mönchengladbach SE & Co. KG	Mönchengladbach	EUR
5	Zalando Logistics Süd SE & Co. KG	Berlin	EUR
6	Zalando S.A.S.	Paris, France	EUR
7	Zalando Customer Care DACH SE & Co. KG	Berlin	EUR
8	Zalando Customer Care International SE & Co. KG	Berlin	EUR
9	Zalando Content Creation SE & Co. KG	Berlin	EUR
10	MyBrands Zalando eStyles SE & Co. KG	Berlin	EUR
11	Zalando Fashion Entrepreneurs GmbH**	Berlin	EUR
12	Zalando Lounge Service GmbH**	Berlin	EUR
13	zOutlet Berlin GmbH**	Berlin	EUR
14	zOutlet Frankfurt GmbH**	Frankfurt/Main	EUR
15	Zalando Ireland Ltd	Dublin, Ireland	EUR
16	Zalando Finland Oy	Helsinki, Finnland	EUR
17	Metrigo GmbH	Hamburg	EUR
18	Bread & Butter GmbH & Co. KG***	Berlin	EUR
19	Portokali Property Development III SE & Co. KG	Berlin	EUR
20	Fashion Connectivity Technologies GmbH	Berlin	EUR
21	Mobile Fashion Discovery GmbH	Berlin	EUR
22	Zalando Media Solutions GmbH	Berlin	EUR
23	Bread & Butter Tradeshow Verwaltungs GmbH	Berlin	EUR
24	zLabels Trading Ltd	Hong Kong, Hong Kong	HKD
Associated companies			
25	Anatwine Ltd****	Cheltenham, United Kingdom	GBP

*) The number refers to the number of the Company
**) Net income 2015 before profit transfer
***) Fiscal year differs from the calendar year (October 31, 2015)
****) Fiscal year differs from the calendar year (June 30, 2015)

	SHARE OF EQUITY HELD BY*	SHARE IN CAPITAL IN % 2015	IN % 2014	NET INCOME/LOSS FOR 2015 (IN EUR M)	EQUITY (IN EUR M)
	Directly	100.0	100.0	0.5	–1,8
	Directly	100.0	100.0	–0.5	–0,1
	Directly 2	99.0 1.0	99.0 1.0	0.0	57,0
	Directly 2	99.0 1.0	99.0 1.0	0.0	49,3
	Directly 2	99.0 1.0	0.0 0.0	0.0	0,1
	Directly	100.0	100.0	0.1	0,7
	Directly 2	99.0 1.0	99.0 1.0	0.0	0,1
	Directly 2	99.0 1.0	99.0 1.0	0.0	0,7
	Directly 2	99.0 1.0	99.0 1.0	0.0	0,9
	Directly 2	99.0 1.0	99.0 1.0	0.0	0,0
	Directly	100.0	100.0	0,0	0,0
	Directly	100.0	100.0	0,1	0,0
	Directly	100.0	100.0	1,0	0,3
	Directly	100.0	100.0	1,2	0,0
	Directly	100.0	0.0	–2,2	–2,2
	Directly	100.0	0.0	–1,2	–1,2
	Directly	100.0	0.0	0,2	–0,4
	Directly 2	99.0 1.0	0.0 0.0	–1.0	6,5
	Directly 2	99.0 1.0	99.0 1.0	0.3	0,0
	Directly	100.0	0.0	0,0	0,0
	Directly	100.0	0.0	0,0	0,0
	Directly	100.0	0.0	0,0	0,0
	18	100.0	0.0	0,0	0,0
	1	100.0	0.0	0,0	0,0
	Directly	20.0	0.0	–5,8	6,6

INVENTORIES

Inventories include goods, primarily containing shoe and textile product groups, as well as payments on account for goods.

RECEIVABLES AND OTHER ASSETS

As in the prior year, most of the receivables due from affiliates are trade receivables and loans. There are letters of subordination for receivables from affiliates totaling EUR 7.8m (prior year: EUR 8.7m).

Other assets for the most part relate to creditors with debit balances and VAT refund claims.

All receivables and other assets have a remaining term of less than one year. In the prior year, other assets due in more than one year amounted to EUR 3k.

BANK BALANCES

Bank balances of EUR 3.8m (prior year: EUR 37.7m) are restricted in favor of third parties as of the reporting date; they essentially serve as security for rental agreements.

DEFERRED TAXES

Zalando discloses deferred tax assets and liabilities in the balance sheet as a net amount. This results in net deferred tax assets of EUR 46.3m (prior year: deferred tax liabilities of EUR 2.0m). The deferred tax assets essentially arose from unused tax losses from prior years that are expected with sufficient probability to be utilized to reduce the future tax burden (EUR 55.6m). Following the second profitable fiscal year and the positive future earnings expectations, Zalando decided to capitalize deferred tax assets on unused tax losses in accordance with section 274 (1) HGB. These are counterbalanced by deferred tax liabilities primarily stemming from internally generated intangible assets (EUR 9.3m).

EQUITY

SUBSCRIBED CAPITAL

247,059,518 ordinary bearer no-par value shares (Stückaktien) are issued as of the reporting date (prior year: 244,762,223). Each share represents an imputed share of subscribed capital of EUR 1.00 and entitles the bearer to one vote at the Company’s annual general meeting.

During fiscal year 2015, subscribed capital was increased by a total of EUR 2.3m to EUR 247.1m by making partial use of authorized capital 2013. It has been paid in in full.

As of the reporting date, authorized and conditional capital comprise the following components:

06 AUTHORIZED AND CONDITIONAL CAPITAL

	AMOUNT IN EUR M	NUMBER OF NO-PAR VALUE SHARES	PURPOSE
Authorized capital 2013	3.1	3,062,125	Servicing of subscription rights from COPs and SOP 2011 until October 28, 2018
Authorized capital 2015	94.7	94,694,847	Cash or non-cash capital increase until June 1, 2020
Conditional capital 2013	9.8	9,817,500	Servicing of subscription rights from SOP 2013
Conditional capital 2014	6.7	6,732,000	Servicing of subscription rights from SOP 2014
Conditional capital 2015	73.9	73,889,248	Issue of warrant bonds and/or convertible bonds until June 1, 2020

The use of authorized capital 2013 and authorized capital 2015 requires the approval of the Supervisory Board. No subscription rights from conditional capital 2013 or conditional capital 2014 were exercised in the fiscal year.

The Management Board was authorized by ZALANDO SE's annual general meeting on June 2, 2015, subject to the approval of the Supervisory Board, to increase the Company's share capital by up to EUR 94.7m up until June 1, 2020 (authorized capital 2015). After authorized capital 2015 took effect, authorized capital 2014 was revoked.

In addition, the share capital was increased conditionally by up to EUR 73.9m through the issue of up to 73,889,248 no-par value bearer shares (conditional capital 2015). The purpose of conditional capital 2015 is to grant shares to the holders or creditors of warrant bonds or convertible bonds or a combination of these instruments. The Company is authorized to issue these instruments until June 1, 2020.

TREASURY SHARES

In addition, the Management Board is authorized until June 1, 2020 to acquire treasury shares in the Company totaling up to 10% of the share capital existing as of the date of the resolution or, if the amount is lower, share capital existing at the time this authorization is exercised. The treasury shares acquired can then be used for any legally permissible purpose. In December 2015, ZALANDO SE repurchased 50,000 treasury shares at an average price of EUR 34.93, which corresponds to a notional share in share capital of EUR 50,000 and thus 0.02% of share capital.

CAPITAL RESERVE

The capital reserve amounts to EUR 1,151.3m (prior year: EUR 1,133.3m). In the fiscal year, the capital reserve included an amount of EUR 19.7m stemming from share-based equity-settled payment awards (prior year: EUR 20.2m). The capital reserve includes an amount of EUR 1.7m pertaining to treasury shares.

VOTING RIGHTS NOTIFICATIONS

Pursuant to section 160 (1) No. 8 AktG, the Company was notified of disclosures on equity investments in accordance with section 21 (1) or (1a) WpHG ["Wertpapierhandelsgesetz": German Securities Trading Act].

The equity investments that had to be notified to the Company can be found in attachment B to the notes.

PROVISIONS

Other provisions totaling EUR 185.4m were recognized (prior year: EUR 140.6m). They primarily relate to marketing expenses (EUR 58.5m), product return claims (EUR 49.8m), outstanding invoices for fulfillment expenses (EUR 45.5m) as well as personnel-related expenses (EUR 7.9m).

LIABILITIES

Liabilities to affiliates amount to EUR 3.0m (prior year: EUR 21.8m) as of the reporting date. As in the prior year, these mainly relate to trade payables.

As in the prior year, all liabilities are due in less than one year. The liabilities are not secured by liens or any other similar rights.

Under reverse factoring agreements, suppliers' claims against Zalando totaling EUR 170.9m were transferred to various factors as of December 31, 2015 (December 31, 2014: EUR 90.5m). These liabilities are reported in the balance sheet under trade liablities.

RESTRICTIONS ON DISTRIBUTION PURSUANT TO SECTION 268 (8) HGB

The recognition of internally generated intangible fixed assets taking into account the associated deferred tax liabilities has resulted in an amount of EUR 22.9m being restricted from distribution (prior year: EUR 19.6m). Furthermore, the net deferred tax assets resulted in an amount of EUR 55.7m being restricted from distribution (prior year: EUR 0.0m).

CONTINGENT LIABILITIES AS DEFINED BY SECTION 251 HGB

Contingent liabilities as defined by section 251 HGB as of the reporting date:

- ZALANDO SE is jointly liable for the loan liabilities of Zalando Logistics SE & Co. KG, Brieselang, of EUR 17.6m (prior year: EUR 20.9m). As of the reporting date, EUR 17.6m of these loan liabilities had been claimed (prior year: EUR 20.9m).

- In the prior year, bank balances of EUR 10.1m were also pledged as collateral for rental guarantees issued for the rental agreements of Zalando Logistics SE & Co. KG, Brieselang, and bank balances of EUR 2.2m as collateral for rental guarantees issued for the rental agreements of Zalando Logistics Mönchengladbach SE & Co. KG, Mönchengladbach. ZALANDO SE is also liable for rental guarantees totaling EUR 10.3m (prior year: EUR 1.1m) issued for additional rental agreements of Zalando Logistics SE & Co. KG, Brieselang, totaling EUR 11.4m (prior year: EUR 11.4m) for rental agreements of Zalando Logistics Mönchengladbach SE & Co. KG, Mönchengladbach, totaling EUR 0.2m (prior year: EUR 0.2m) for rental agreements of Zalando Operations GmbH, Berlin, and totaling EUR 3.5m (prior year: EUR 0m) for rental agreements of Zalando Logistics Süd SE & Co. KG, Berlin.

- ZALANDO SE has entered into obligations towards Goodmann Cinnamon Logistics (Lux) S.àr.l, Goodmann Boysenberry Logistics (Lux) S.àr.l and Goodmann Tumbleweed Logistics (Lux) S.àr.l, to provide Zalando Logistics GmbH & Co. KG, Brieselang and Zalando Logistics Mönchengladbach GmbH & Co. KG, Mönchengladbach, with financial resources so that it is in a position at all times to settle its liabilities from rental agreements for fulfillment space in Erfurt and Mönchengladbach.

Based on the economic situation and the forecasts available, ZALANDO SE deems the risk of claims being made from these contingent liabilities to be low.

OTHER FINANCIAL OBLIGATIONS PURSUANT TO SECTION 285 NO. 3A HGB

There were other financial obligations of EUR 64.0m (prior year: EUR 61.4m) (thereof to affiliates: EUR 0.0m (as in the prior year)) as of the reporting date.

These obligations relate to the following items:

07 OTHER FINANCIAL OBLIGATIONS

IN EUR M	
Rental agreements	63.4
Lease agreements	0.6
Total	**64.0**

Rental and lease agreements have a residual term of up to 10 years.

There are also other financial obligations from purchase obligations for merchandise from the 2016 spring/summer season as of the reporting date.

DERIVATIVE FINANCIAL INSTRUMENTS

As of the reporting date, forward exchange contracts totaled EUR 295.5m (prior year: EUR 133.3m), some of which displayed a positive market value of EUR 3.8m (prior year: EUR 1.8m) while others displayed a negative market value of EUR 0.7m (prior year: EUR 0.0m).

The option to account for hedges was exercised in the following cases as of the reporting date:

The gross method was used to combine trade payables in USD of EUR 14.0m (prior year: EUR 0.5m) with forward exchange contracts totaling EUR 14.0m (prior year: EUR 0.5m) (market value: EUR 0.0m (prior year: EUR 0.0m)) in several portfolio hedges in order to hedge the currency risk. The effectiveness is measured prospectively using the critical terms match method and retrospectively using the dollar offset method. All value changes in derivatives are expected to be fully compensated in the future, as the critical features of underlying hedged items and hedging instruments match. These market values are reported in the balance sheet under other assets and other liabilites.

The net method was used to combine orders obtained for goods in USD with a volume of EUR 4.5m (prior year: EUR 26.1m) with forward exchange contracts totaling EUR 4.5m (prior year: EUR 15.1m) (market value: EUR 0.0m (prior year: EUR 0.6m)) in several portfolio hedges in order to hedge the currency risk. The effectiveness is measured prospectively using the critical terms match method and retrospectively using the dollar offset method. All value changes in derivatives are expected to be fully compensated in the future, as the critical features of underlying hedged items and hedging instruments match.

The net method was used to combine expected sales of goods to customers in CHF, NOK, PLN and SEK with a volume of EUR 256.0m (prior year: EUR 277.8m) with forward exchange contracts totaling EUR 256.0m (prior year: EUR 117.7m) (positive market value: EUR 3.0m (prior year: EUR 1.1m); negative market value: EUR 0.7m (prior year: EUR 0.0m)) in several portfolio hedges in order to hedge the currency risk. The effectiveness is measured prospectively using the critical terms match method and retrospectively using the dollar offset method. All value changes in derivatives are expected to be fully compensated in the future, as the critical features of underlying hedged items and hedging instruments match.

The net method was used to combine revenue from the sale of goods to customers in CHF, NOK, PLN and SEK with a volume of EUR 21.0m (prior year: EUR 0.0m) with forward exchange contracts totaling EUR 21.0m (positive market value: EUR 0.8m (prior year: EUR 0.0m); negative market value: EUR 0.1m (prior year: EUR 0.0m)) in several portfolio hedges in order to hedge the currency risk. The effectiveness is measured prospectively using the critical terms match method and retrospectively using the dollar offset method. All value changes in derivatives are expected to be fully compensated in the future, as the critical features of underlying hedged items and hedging instruments match.

D NOTES TO THE INCOME STATEMENT

REVENUE

In fiscal year 2015, around 56% of revenue related to the region Germany/Austria/Switzerland (DACH) (see following table).

08 REVENUE BY SEGMENT

IN EUR M	2015		2014		CHANGE
DACH*	1,665.6	56.5%	1,293.6	58.7%	372.0
Rest of Europe**	1,285.2	43.5%	912.1	41.3%	373.1
ZALANDO SE	**2,950.8**	**100%**	**2,205.7**	**100%**	**745.1**

*) As in fiscal year 2014, DACH countries include Germany, Austria and Switzerland
**) As in fiscal year 2014, the Rest of Europe comprises the Netherlands, France, Italy, the United Kingdom, Poland, Belgium, Sweden, Finland, Denmark, Spain, Norway and Luxembourg.

Revenue comprises the sale of merchandise (EUR 2,904.8m) and the provision of services (EUR 46.0m).

INCOME RELATING TO OTHER PERIODS

Income relating to other periods of EUR 5.5m (prior year: EUR 8.6m) mainly includes income from the reversal of provisions.

INCOME TAXES

Income taxes include the deferred taxes and current income taxes paid or payable. They comprise trade tax, corporate income tax and solidarity surcharge. As in the prior year, the statutory corporate income tax rate, including solidarity surcharge, for the assessment period 2015 in Germany was 15.8%. The applicable trade tax rate rose to 14.8% as a result of changes in corporate allocations (prior year. 13.3%).

Current and deferred taxes are presented in the following table:

09 CURRENT AND DEFERRED TAXES

IN EUR M	JAN 1–DEC 31, 2015	JAN 1–DEC 31, 2014
Deferred taxes	48.3	–2.0
Current taxes	–12.1	–6.1
Total	**36.2**	**–8.1**

RECONCILIATION OF NET RETAINED PROFIT / ACCUMULATED LOSS

Pursuant to section 158 (1) AktG, net retained profit/accumulated loss is derived by rolling forward the net income for the year as follows:

10 RECONCILIATION OF ACCUMULATED LOSS

IN EUR	
Net income for the year	127,212,053.54
Loss carryforward from the prior year	–234,739,274.56
Accumulated loss	**–107,527,221.02**

E OTHER NOTES

NUMBER OF EMPLOYEES

An annual average of 3,019 (prior year: 2,228) persons were employed by the Company in the fiscal year.

11 AS OF DECEMBER 31, 2015, THE NUMBER OF EMPLOYEES TOTALED

Commercial	1,069
Technology	943
Others	1,225
Total	**3,237**

03.2 GROUP AFFILIATION

As the German parent Company, ZALANDO SE prepares consolidated financial statements. The consolidated financial statements of ZALANDO SE, Berlin, are prepared in accordance with International Financial Reporting Standards (IFRSs) as adopted by the EU (section 315a HGB). The consolidated financial statements are published in the Bundesanzeiger [German Federal Gazette].

AUDIT FEES

The Company has opted not to disclose audit fees in accordance with section 285 No. 17 last clause HGB. They are disclosed in the consolidated financial statements of ZALANDO SE.

MEMBERS OF THE SUPERVISORY BOARD

In the reporting year, the following persons made up the Company's Supervisory Board:

12 MEMBERS OF THE SUPERVISORY BOARD

SUPERVISORY BOARD	PROFESSION	SUPERVISORY BOARD MEMBER
Cristina Stenbeck (Chairwoman of the Supervisory Board)	Executive Chairman of the Board of Directors Investment AB Kinnevik	since February 10, 2014
Lorenzo Grabau (Vice chairman)	CEO of Investment AB Kinnevik	since December 12, 2013
Anders Holch Povlsen	CEO of the Bestseller Group	since December 12, 2013
Lothar Lanz	Member of Supervisory Boards, including for Axel Springer SE and TAG Immobilien AG	since February 10, 2014
Kai-Uwe Ricke	Chairman, Board of Directors of Delta Partners	since June 3, 2014
Alexander Samwer	Independent internet entrepreneur	since December 12, 2013
Konrad Schäfers	Employee of ZALANDO SE (Corporate Finance)	since June 2, 2015
Dylan Ross	Employee of ZALANDO SE (Category Management)	since June 2, 2015
Beate Siert	Employee of ZALANDO SE (Affiliate Marketing)	since June 2, 2015
Benjamin Krümel	Head of Buying Men and Lifestyle ZALANDO SE	until June 2, 2015
Dr. Christoph Stark	VP Logistics ZALANDO SE	until June 2, 2015
Christine De Wendel	Cluster Head France ZALANDO SE	until June 2, 2015

The remuneration of Supervisory Board is governed by Art. 15 of the Articles of Association and comprises fixed annual payments. The amount is based on the responsibilities and scope of the activities carried out by the respective Supervisory Board member as well as the Company's economic situation.

According to the Articles of Association the members of the Supervisory Board receive remuneration of EUR 0.6m in fiscal year 2015 (prior year: EUR 0.3m). The remuneration of the Supervisory Board members falls due after the annual general meeting which accepts the financial statements for the fiscal year for which the remuneration is paid or decides on their approval.

Reference is also made to the remuneration report, which can be found in the corporate governance report and which is an integral part of the combined management report.

The following overview lists all of the companies and enterprises in which the members of the Supervisory Board of ZALANDO SE currently are members of a statutory supervisory board of the companies or members of a comparable controlling body in Germany or abroad.

13 CURRENT AND PAST SEATS

NAME OF SUPERVISORY BOARD MEMBER	MANDATES PURSUANT TO SECTION 125 (1) SENTENCE 5 AKTG
Cristina Stenbeck	Investment AB Kinnevik, Sweden (member of the Board of Directors, Chairman)
	Millicom International Cellular, Luxembourg (member of the Board of Directors, Chairman)
	Verdere SARL, Luxembourg (member of the Board of Directors, Chairman)
Lorenzo Grabau	Rocket Internet SE, Berlin (member of the Supervisory Board)
	Qliro Group AB, Sweden (member of the Board of Directors)
	Millicom International Cellular S.A., Luxembourg (member of the Board of Directors)
	Tele2 AB, Sweden (member of the Board of Directors)
	Secure Value E.E.I.G. (member of the Board of Directors)
	Avito Holding AB, Sweden (member of the Board of Directors, Chairman)
	Global Fashion Holding S.A., Luxembourg (member of the Board of Directors, Chairman)
	Lazada Group S.A., Luxembourg (member of the Board of Directors, Chairman)
Lothar Lanz	Axel Springer SE (member of the Supervisory Board)
	Bauwert AG (member of the Supervisory Board, Chairman)
	Dogan TV Holding A.S. (member of the Board of Directors)
	Home24 AG (member of the Supervisory Board, Chairman)
	TAG Immobilien AG (member of the Supervisory Board)

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NAME OF SUPERVISORY BOARD MEMBER	MANDATES PURSUANT TO SECTION 125 (1) SENTENCE 5 AKTG
Anders Holch Povlsen*	Intervare A/S 25169158, Denmark (member of the Board of Directors, Chairman) Nemlig.com A/S, Denmark (member of the Board of Directors, Chairman) J.Lindeberg AB 556533-7085, Sweden (member of the Board of Directors) J.Lindeberg Holding AB, Sweden (member of the Board of Directors) J.Lindeberg IP HK Limited, Hong Kong (member of the Board of Directors) J.Lindeberg Holding (Singapore) Pte. Ltd., Singapore (member of the Board of Directors) JL Schweiz AG, Switzerland (member of the Board of Directors, Chairman)
Kai-Uwe Ricke	United Internet AG, Montabaur (Member of the Supervisory Board) *Mandates in affiliated companies:* United Internet Ventures AG, Montabaur (Member of the Supervisory Board) United Internet Service SE, Montabaur (Member of the Supervisory Board until Mar 16, 2015) 1&1 Internet AG, Montabaur (Member of the Supervisory Board until June 11, 2015) 1&1 Internet SE, Montabaur (Member of the Supervisory Board) 1&1 Telecommunication AG, Montabaur (Member of the Supervisory Board, Deputy Chairman until Apr 30, 2015) 1&1 Telecommunication SE, Montabaur (Member of the Supervisory Boad) GMX & WEB.DE Mail & Media SE, Montabaur (Member of the Supervisory Board until Jul 14, 2015) 1&1 Mail & Media Application SE, Montabaur (Member of the Supervisory Board until Mar 16, 2015; Deputy Chairman since Jul 22, 2015) euNetworks Group Ltd, Singapore (Member of the Board of Directors) Delta Partners, Dubai (Member of the Board of Directors, Chairman) SUSI Partners AG, Switzerland (Member of the Board of Directors, Chairman since Aug 28, 2015) Virgin Mobile CEE, Netherlands (Member of the Board of Directors)
Alexander Samwer	–
Konrad Schäfer	–
Beate Siert	–
Dylan Ross	–

*) Mr. Povlsen is also member of Boards of Directors at various foreign group entities of the Bestseller group as well as foreign entities with a family connection.

MEMBERS OF THE MANAGEMENT BOARD

The Management Board of ZALANDO SE is made up as follows:

15 MEMBERS OF THE MANAGEMENT BOARD

MANAGEMENT BOARD	PROFESSION
Robert Gentz	Management Board member
David Schneider	Management Board member
Rubin Ritter	Management Board member

The members of the Management Board were employed on a full-time basis.

Total remuneration of the Management Board totaled EUR 0.7m in fiscal year 2015 (prior year: EUR 0.6m). No new options were granted to the Management Board in fiscal year 2015 or the prior year.

RELATED PARTIES DISCLOSURES

Related parties are legal or natural persons that can influence ZALANDO SE or that are subject to the control or significant influence of ZALANDO SE.

Transactions with related parties were mainly concluded with subsidiaries of ZALANDO SE. Business transactions with related parties are conducted at arm's length.

APPROPRIATION OF PROFITS

The accumulated loss will be carried forward.

CORPORATE GOVERNANCE DECLARATION

The declaration of the Management Board and Supervisory Board on the German Corporate Governance Code pursuant to section 161 AktG from November 2015 is published on the Company's website (corporate.zalando.com).

SIGNING OF THE 2015 FINANCIAL STATEMENTS

Berlin, February 29, 2016

The Management Board
Robert Gentz David Schneider Rubin Ritter

03.3 ATTACHMENT A TO THE NOTES

16 STATEMENT OF CHANGES IN FIXED ASSETS FOR 2015

	ACQUISITION AND PRODUCTION COST				
IN EUR M	JAN 1, 2015	ADDITIONS	DISPOSALS	RECLASSIFI-CATIONS	DEC 31, 2015
Intangible assets					
Internally generated industrial and similar rights and assets	34.4	13.2	0.0	1.7	49.3
Industrial rights, similar rights and assets and licenses in such rights and assets	18.2	5.6	0.0	0.3	24.1
Prepayments	2.6	9.2	0.0	–2.0	9.8
	55.2	*28.0*	*0.0*	*0.0*	*83.2*
Property, plant and equipment					
Buildings on third-party land	0.2	0.0	0.0	0.0	0.2
Plant and machinery	0.0	0.5	0.0	0.0	0.5
Other equipment, furniture and fixtures	21.2	11.8	0.1	0.0	32.9
Prepayments and assets under construction	0.2	0.1	0.0	0.0	0.3
	21.6	*12.4*	*0.1*	*0.0*	*33.9*
Financial assets					
Shares in affiliates	113.5	24.1	0.0	0.0	137.6
Equity investments	0.0	9.4	0.0	0.0	9.4
	113.5	*33.5*	*0.0*	*0.0*	*147.0*
	190.3	**73.9**	**0.1**	**0.0**	**264.1**

ACCUMULATED AMORTIZATION. DEPRECIATION AND WRITE-DOWNS				CARRYING AMOUNTS	
JAN 1, 2015	ADDITIONS	DISPOSALS	DEC 31, 2015	DEC 31, 2015	DEC 31, 2014 IN EUR M
14.7	12.2	0.0	26.9	22.4	19.7
11.5	4.6	0.0	16.1	8.0	6.7
0.0	0.0	0.0	0.0	9.8	2.6
26.2	*16.8*	*0.0*	*43.0*	*40.2*	*29.0*
0.2	0.0	0.0	0.2	0.0	0.0
0.0	0.1	0.0	0.1	0.4	0.0
10.0	5.3	0.1	15.2	17.7	11.2
0.0	0.0	0.0	0.0	0.3	0.2
10.2	*5.4*	*0.1*	*15.5*	*18.4*	*11.4*
0.1	0.0	0.0	0.1	137.5	113.4
0.0	0.0	0.0	0.0	9.4	0.0
0.1	*0.0*	*0.0*	*0.1*	*146.9*	*113.4*
36.5	**22.2**	**0.1**	**58.6**	**205.5**	**153.8**

03.4 ATTACHMENT B TO THE NOTES

DISCLOSURES PURSUANT TO SECTION 160 (1) NO. 8 AKTG [“AKTIENGESETZ”: GERMAN STOCK CORPORATION ACT]

The Company was notified pursuant to section 21 (1) or (1a) WpHG [“Wertpapierhandelsgesetz”: German Securities Trading Act] of shareholdings held in it and makes the following disclosures in accordance with section 26 (1) WpHG:

On November 25, 2015, ZALANDO SE, Tamara-Danz-Strasse 1, 10243 Berlin, received the following notification in accordance with section 21 (1) WpHG:

Global Founders GmbH, Grünwald, Germany, informed us that as of November 20, 2015 its share of voting rights in ZALANDO SE, Berlin, Germany, had fallen below the thresholds of 10%, 15%, 20%, 25% and 30% of the voting rights and amounted to 9.92% on that date (24,477,678 voting rights). Global Founders GmbH directly holds 9.41% (23,212,181 voting rights). 0.51% (1,265,497 voting rights) are attributable to Global Founders GmbH pursuant to section 22 (1) Sentence 1 No. 1 WpHG.

On November 9, 2015, Baillie Gifford Overseas Ltd., Edinburgh, United Kingdom, informed us pursuant to section 21 (1) WpHG that as of November 6, 2015 its share of voting rights in ZALANDO SE, Berlin, Germany, had exceeded the threshold of 3% of the voting rights and amounted to 3.08% on that date (7,597,996 voting rights). 3.08% of the voting rights (7,597,996 voting rights) are attributable to the Company pursuant to section 22 (1) Sentence 1 No. 6 WpHG.

On September 2, 2015, ZALANDO SE, Tamara-Danz-Strasse 1, 10243 Berlin, Germany, received the following voting rights notifications in accordance with section 21 (1) WpHG:

1. Ms. Rebecca David, Cyprus, informed us pursuant to section 21 (1) WpHG that as of August 28, 2015 her share of voting rights in ZALANDO SE, Berlin, Germany, had fallen below the threshold of 3% of the voting rights and amounted to 2.96% on that date (7,305,076 voting rights). 2.96% (7,305,076 voting rights) are attributable to Ms. David pursuant to section 22 (1) Sentence 1 No. 1 WpHG.

2. Yuri Milner, Russia, informed us pursuant to section 21 (1) WpHG that as of August 28, 2015 his share of voting rights in ZALANDO SE had fallen below the threshold of 3% of the voting rights and amounted to 2.96% on that date (7,305,076 voting rights). 2.96% (7,305,076 voting rights) are attributable to Mr. Milner pursuant to section 22 (1) Sentence 1 No. 1 WpHG.

3. Newton Trustees Limited, Charlestown, Nevis, informed us pursuant to section 21 (1) WpHG that as of August 28, 2015 its share of voting rights in ZALANDO SE had fallen below the threshold of 3% of the voting rights and amounted to 2.96% on that date (7,305,076 voting rights). 2.96% (7,305,076 voting rights) are attributable to Newton Trustees Limited pursuant to section 22 (1) Sentence 1 No. 1 WpHG.

4. DST Managers Limited, George Town, Cayman Islands, informed us pursuant to section 21 (1) WpHG that as of August 28, 2015 its share of voting rights in ZALANDO SE, Berlin, Germany, had fallen below the threshold of 3% of the voting rights and amounted to 2.95%

on that date (7,287,515 voting rights). 2.95% (7,287,515 voting rights) are attributable to DST Managers Limited pursuant to section 22 (1) Sentence 1 No. 1 WpHG.

On September 4, 2015, Baillie Gifford & Co, Edinburgh, United Kingdom, informed us pursuant to section 21 (1) WpHG that as of September 2, 2015 its share of voting rights in ZALANDO SE, Berlin, Germany, had exceeded the threshold of 3% of the voting rights and amounted to 3.06% on that date (7,534,666 voting rights). 1.30% of the voting rights (3,209,431 voting rights) are attributable to the Company pursuant to section 22 (1) Sentence 1 No. 6 WpHG. 1.75% of the voting rights (4,325,235 voting rights) are attributable to the Company pursuant to section 22 (1) Sentence 1 No. 6 and Sentence 2 WpHG.

On July 22, 2015, ZALANDO SE, Tamara-Danz-Strasse 1, 10243 Berlin, Germany, received the following voting rights notifications in accordance with section 21 (1) WpHG:

1. Ms. Rebecca David, Cyprus, informed us pursuant to section 21 (1) WpHG that as of July 20, 2015 her share of voting rights in ZALANDO SE, Berlin, Germany, had fallen below the threshold of 5% of the voting rights and amounted to 4.61% on that date (11,367,653 voting rights). 4.61% (11,367,653 voting rights) are attributable to Ms. David pursuant to section 22 (1) Sentence 1 No. 1 WpHG. The voting rights attributed to her are held by the following entities which she controls whose share in the voting rights in ZALANDO SE is 3% or more: DST Managers Limited, Newton Trustees Limited.

2. Yuri Milner, Russia, informed us pursuant to section 21 (1) WpHG that as of July 20, 2015 his share of voting rights in ZALANDO SE had fallen below the threshold of 5% of the voting rights and amounted to 4.61% on that date (11,367,653 voting rights). 4.61% (11,367,653 voting rights) are attributable to Mr. Milner pursuant to section 22 (1) Sentence 1 No. 1 WpHG. The voting rights attributed to him are held by the following entities which he controls whose share in the voting rights in ZALANDO SE is 3% or more: DST Managers Limited, Newton Trustees Limited.

3. Newton Trustees Limited, Charlestown, Nevis, informed us pursuant to section 21 (1) WpHG that as of July 20, 2015 its share of voting rights in ZALANDO SE had fallen below the threshold of 5% of the voting rights and amounted to 4.61% on that date (11,367,653 voting rights). 4.61% (11,367,653 voting rights) are attributable to Newton Trustees Limited pursuant to section 22 (1) Sentence 1 No. 1 WpHG. The voting rights attributed to it are held by the following entities which it controls whose share in the voting rights in ZALANDO SE is 3% or more: DST Managers Limited.

4. DST Managers Limited, George Town, Cayman Islands, informed us pursuant to section 21 (1) WpHG that as of July 20, 2015 its share of voting rights in ZALANDO SE, Berlin, Germany, had fallen below the threshold of 5% of the voting rights and amounted to 4.60% on that date (11,340,325 voting rights). 4.60% (11,340,325 voting rights) are attributable to DST Managers Limited pursuant to section 22 (1) Sentence 1 No. 1 WpHG.

5. DST Global III, L.P., George Town, Cayman Islands, informed us pursuant to section 21 (1) WpHG that as of July 20, 2015 its share of voting rights in ZALANDO SE, Berlin, Germany, had fallen below the threshold of 3% of the voting rights and amounted to 2.92% on that date (7,194,609 voting rights). 2.92% (7,194,609 voting rights) are attributable to DST Global III, L.P. pursuant to section 22 (1) Sentence 1 No. 1 WpHG.

6. DST Europe EC 2 S.à.r.l, Luxembourg, Grand Duchy of Luxembourg, informed us pursuant to section 21 (1) WpHG that as of July 20, 2015 its share of voting rights in ZALANDO SE, Berlin, Germany, had fallen below the threshold of 3% of the voting rights and amounted to 2.92% on that date (7,194,609 voting rights).

On July 16, 2015, ZALANDO SE, Tamara-Danz-Strasse 1, 10243 Berlin, Germany, received the following notifications in accordance with section 21 (1) WpHG:

1. Holtzbrinck Ventures GmbH & Co. KG, Munich, Germany, informed us that as of July 13, 2015 its share of voting rights in ZALANDO SE, Berlin, Germany, had fallen below the thresholds of 3% and 5% of the voting rights and amounted to 2.57% on that date (6,328,110 voting rights).

2. HV Holtzbrinck Ventures Verwaltungsgesellschaft mbH, Munich, Germany, informed us that as of July 13, 2015 its share of voting rights in ZALANDO SE, Berlin, Germany, had fallen below the thresholds of 3% and 5% of the voting rights and amounted to 2.57% on that date (6,328,110 voting rights). 2.57% (6,328,110 voting rights) are attributable to the Company pursuant to section 22 (1) Sentence 1 No. 1 WpHG.

3. HV Holtzbrinck Ventures Fund IV LP, St. Helier, Jersey, Channel Islands, informed us that as of July 13, 2015 its share of voting rights in ZALANDO SE, Berlin, Germany, had fallen below the thresholds of 3% and 5% of the voting rights and amounted to 2.57% on that date (6,328,110 voting rights). 2.57% (6,328,110 voting rights) are attributable to the Company pursuant to section 22 (1) Sentence 1 No. 1 WpHG.

4. HV Holtzbrinck Ventures Fund IV GP Limited, St. Helier, Jersey, Channel Islands, informed us that as of July 13, 2015 its share of voting rights in ZALANDO SE, Berlin, Germany, had fallen below the thresholds of 3% and 5% of the voting rights and amounted to 2.57% on that date (6,328,110 voting rights). 2.57% (6,328,110 voting rights) are attributable to the Company pursuant to section 22 (1) Sentence 1 No. 1 WpHG.

5. HV Holtzbrinck Ventures Holding GmbH & Co. KG, Munich, Germany, informed us that as of July 13, 2015 its share of voting rights in ZALANDO SE, Berlin, Germany, had fallen below the thresholds of 3% and 5% of the voting rights and amounted to 2.57% on that date (6,328,110 voting rights). 2.57% (6,328,110 voting rights) are attributable to the Company pursuant to section 22 (1) Sentence 1 No. 1 WpHG.

6. HV Holtzbrinck Ventures Holding GmbH, Munich, Germany, informed us that as of July 13, 2015 its share of voting rights in ZALANDO SE, Berlin, Germany, had fallen below the thresholds of 3% and 5% of the voting rights and amounted to 2.57% on that date (6,328,110 voting rights). 2.57% (6,328,110 voting rights) are attributable to the Company pursuant to section 22 (1) Sentence 1 No. 1 WpHG.

On July 1, 2015, ZALANDO SE, Tamara-Danz-Strasse 1, 10243 Berlin, received the following notifications in accordance with section 21 (1) WpHG:

1. TEV Global Invest I GmbH, Mülheim an der Ruhr, Germany, informed us that as of June 25, 2015 its share of voting rights in ZALANDO SE, Berlin, Germany, had fallen below the threshold of 5% of the voting rights and amounted to 4.996% on that date (12,320,457 voting rights).

2. Tengelmann Ventures GmbH, Mülheim an der Ruhr, Germany, informed us that as of June 25, 2015 its share of voting rights in ZALANDO SE, Berlin, Germany, had fallen below the threshold of 5% of the voting rights and amounted to 4.996% on that date (12,320,457 voting rights). 4.996% (12,320,457 voting rights) are attributable to the Company pursuant to section 22 (1) Sentence 1 No. 1 WpHG. The voting rights attributed to it are held by the following entities which it controls whose share in the voting rights in ZALANDO SE is 3% or more: TEV Global Invest I GmbH.

3. Tengelmann Ventures Management GmbH, Mülheim an der Ruhr, Germany, informed us that as of June 25, 2015 its share of voting rights in ZALANDO SE, Berlin, Germany, had fallen below the threshold of 5% of the voting rights and amounted to 4.996% on that date (12,320,457 voting rights). 4.996% (12,320,457 voting rights) are attributable to the Company pursuant to section 22 (1) Sentence 1 No. 1 WpHG. The voting rights attributed to it are held by the following entities which it controls whose share in the voting rights in ZALANDO SE is 3% or more: TEV Global Invest I GmbH, Tengelmann Ventures GmbH.

4. Tengelmann Warenhandelsgesellschaft KG, Mülheim an der Ruhr, Germany, informed us that as of June 25, 2015 its share of voting rights in ZALANDO SE, Berlin, Germany, had fallen below the threshold of 5% of the voting rights and amounted to 4.996% on that date (12,320,457 voting rights). 4.996% (12,320,457 voting rights) are attributable to the Company pursuant to section 22 (1) Sentence 1 No. 1 WpHG. The voting rights attributed to it are held by the following entities which it controls whose share in the voting rights in ZALANDO SE is 3% or more: TEV Global Invest I GmbH, Tengelmann Ventures GmbH, Tengelmann Ventures Management GmbH.

5. Tengelmann Verwaltungs- und Beteiligungs GmbH, Mülheim an der Ruhr, Germany, informed us that as of June 25, 2015 its share of voting rights in ZALANDO SE, Berlin, Germany, had fallen below the threshold of 5% of the voting rights and amounted to 4.996% on that date (12,320,457 voting rights). 4.996% (12,320,457 voting rights) are attributable to the Company pursuant to section 22 (1) Sentence 1 No. 1 WpHG. The voting rights attributed to it are held by the following entities which it controls whose share in the voting rights in ZALANDO SE is 3% or more: TEV Global Invest I GmbH, Tengelmann Ventures GmbH, Tengelmann Ventures Management GmbH, Tengelmann Warenhandelsgesellschaft KG.

On March 26, 2015, ZALANDO SE, Tamara-Danz-Strasse 1, 10243 Berlin, received the following correction to the voting rights notification in accordance with section 21 WpHG dated March 16, 2015:

AI European Holdings S.àr.l., Bertrange, Luxembourg, informed us that as of March 13, 2015 its share of voting rights in ZALANDO SE, Berlin, Germany, had fallen below the threshold of 3% of the voting rights and amounted to 1.61% on that date (3,945,700 voting rights).

On March 16, 2015, ZALANDO SE, Tamara-Danz-Strasse 1, 10243 Berlin, received the following notifications in accordance with section 21 (1) WpHG:

1. AI European Holdings S.à r.l., Luxembourg, Luxembourg, informed us that as of March 13, 2015 its share of voting rights in ZALANDO SE, Berlin, Germany, had fallen below the threshold of 3% of the voting rights and amounted to 1.61% on that date (3,945,700 voting rights).

2. AI European Holdings LP, Tortola, British Virgin Islands, United Kingdom, informed us that as of March 13, 2015 its share of voting rights in ZALANDO SE, Berlin, Germany, had fallen below the threshold of 3% of the voting rights and amounted to 1.61% on that date (3,945,700 voting rights). 1.61% of the voting rights (3,945,700 voting rights) are attributable to the Company pursuant to section 22 (1) Sentence 1 No. 1 WpHG.

3. AI European Holdings GP Limited, Tortola, British Virgin Islands, United Kingdom, informed us that as of March 13, 2015 its share of voting rights in ZALANDO SE, Berlin, Germany, had fallen below the threshold of 3% of the voting rights and amounted to 1.61% on that date (3,945,700 voting rights). 1.61% of the voting rights (3,945,700 voting rights) are attributable to the Company pursuant to section 22 (1) Sentence 1 No. 1 WpHG.

4. Access Industries Investment Holdings LLC, Delaware, United States of America, informed us that as of March 13, 2015 its share of voting rights in ZALANDO SE, Berlin, Germany, had fallen below the threshold of 3% of the voting rights and amounted to 1.61% on that date (3,945,700 voting rights). 1.61% of the voting rights (3,945,700 voting rights) are attributable to the Company pursuant to section 22 (1) Sentence 1 No. 1 WpHG.

5. AI SMS LP, Tortola, British Virgin Islands, United Kingdom, informed us that as of March 13, 2015 its share of voting rights in ZALANDO SE, Berlin, Germany, had fallen below the threshold of 3% of the voting rights and amounted to 1.61% on that date (3,945,700 voting rights). 1.61% of the voting rights (3,945,700 voting rights) are attributable to the Company pursuant to section 22 (1) Sentence 1 No. 1 WpHG.

6. AI SMS GP Limited, Tortola, British Virgin Islands, United Kingdom, informed us that as of March 13, 2015 its share of voting rights in ZALANDO SE, Berlin, Germany, had fallen below the threshold of 3% of the voting rights and amounted to 1.61% on that date (3,945,700 voting rights). 1.61% of the voting rights (3,945,700 voting rights) are attributable to the Company pursuant to section 22 (1) Sentence 1 No. 1 WpHG.

7. AI Petroleum Holdings LLC, Delaware, United States of America, informed us that as of March 13, 2015 its share of voting rights in ZALANDO SE, Berlin, Germany, had fallen below the threshold of 3% of the voting rights and amounted to 1.61% on that date (3,945,700 voting rights). 1.61% of the voting rights (3,945,700 voting rights) are attributable to the Company pursuant to section 22 (1) Sentence 1 No. 1 WpHG.

8. AIPH Holdings LLC, Delaware, United States of America, informed us that as of March 13, 2015 its share of voting rights in ZALANDO SE, Berlin, Germany, had fallen below the threshold of 3% of the voting rights and amounted to 1.61% on that date (3,945,700 voting rights). 1.61% of the voting rights (3,945,700 voting rights) are attributable to the Company pursuant to section 22 (1) Sentence 1 No. 1 WpHG.

9. Access Industries Holdings LLC, Delaware, United States of America, informed us that as of March 13, 2015 its share of voting rights in ZALANDO SE, Berlin, Germany, had fallen below the threshold of 3% of the voting rights and amounted to 1.61% on that date (3,945,700 voting rights). 1.61% of the voting rights (3,945,700 voting rights) are attributable to the Company pursuant to section 22 (1) Sentence 1 No. 1 WpHG.

10. Access Industries, LLC, Delaware, United States of America, informed us that as of March 13, 2015 its share of voting rights in ZALANDO SE, Berlin, Germany, had fallen below the threshold of 3% of the voting rights and amounted to 1.61% on that date (3,945,700 voting rights). 1.61% of the voting rights (3,945,700 voting rights) are attributable to the Company pursuant to section 22 (1) Sentence 1 No. 1 WpHG.

11. Grantor Trust dated May 21, 2003, Delaware, United States of America, informed us that as of March 13, 2015 its share of voting rights in ZALANDO SE, Berlin, Germany, had fallen below the threshold of 3% of the voting rights and amounted to 1.61% on that date (3,945,700 voting rights). 1.61% of the voting rights (3,945,700 voting rights) are attributable to the trust pursuant to section 22 (1) Sentence 1 No. 1 WpHG.

12. Len Blavatnik, United Kingdom, informed us that as of March 13, 2015 his share of voting rights in ZALANDO SE, Berlin, Germany, had fallen below the threshold of 3% of the voting rights and amounted to 1.61% on that date (3,945,700 voting rights). 1.61% of the voting rights (3,945,700 voting rights) are attributable to Len Blavatnik pursuant to section 22 (1) Sentence 1 No. 1 WpHG.

On January 26, 2015, Ms. Rebecca David, Cyprus, informed us pursuant to section 21 (1) WpHG that as of December 28, 2014 her share of voting rights in ZALANDO SE, Berlin, Germany, had exceeded the thresholds of 3% and 5% of the voting rights and amounted to 7.10% on that date (17,381,650 voting rights). 7.10% of the voting rights (17,381,650 voting rights) are attributable to Ms. David pursuant to section 22 (1) Sentence 1 No. 1 WpHG. The voting rights attributed to her are held by the following entities which she controls whose share in the voting rights in ZALANDO SE is 3% or more: DST Europe EC 2 S.àr.l., DST Global III L.P., DST Managers Limited, Newton Trustees Limited.

On January 26, 2015, Mr. Alastair Tulloch, United Kingdom, informed us pursuant to section 21 (1) WpHG that as of December 28, 2014 his share of voting rights in ZALANDO SE, Berlin, Germany, had fallen below the thresholds of 5% and 3% of the voting rights and amounted to 0.0% on that date (0 voting rights).

04 COMBINED MANAGEMENT REPORT

04.1 BACKGROUND TO THE GROUP

04.1.1 BUSINESS MODEL

Zalando is Europe's leading online fashion platform. The Berlin-based company offers its customers a wide assortment of clothes, shoes and accessories for men, women and children, delivered and returned at no charge.

Zalando cooperates with more than 1,500 brand manufacturers to offer an assortment ranging from global brands and local and fast-fashion brands through to self-designed private labels. Zalando's offering has been extended and enhanced with Zalando Lounge, which offers registered members special offers at reduced prices. The brick and mortar outlet stores in Berlin and Frankfurt opened in 2012 and 2014, respectively, and serve as additional sales channels for remaining stock. The parent company, ZALANDO SE, was founded in 2008 and has its registered offices in Berlin. The Zalando shops are tailored to the local customer needs in 15 different European markets: Austria, Belgium, Denmark, Finland, France, Germany, Italy, Luxembourg, Netherlands, Norway, Poland, Sweden, Switzerland, Spain and the United Kingdom. In each of these markets, our country-specific websites and mobile apps are tailored to the needs and preferences of our customers. At present, a network of three fulfillment centers in Germany enables Zalando to serve all its customers throughout Europe efficiently. An additional fulfillment center is currently being constructed in southern Germany. This will allow even faster delivery for customers in southern Germany, Switzerland and France to address the rising demand in online retail. Furthermore Zalando is opening its first international fulfillment center in cooperation with a logistics service provider in Italy. In addition, the centralized management of our sourcing, fulfillment and technology divisions provides us with economies of scale.

In order to provide the perfect shopping experience, Zalando offers its customers free delivery and returns with a return policy of up to 100 days, a free service hotline, exciting online content and customized recommendations. The group believes that the combination of fashion, operating excellence and online technology is a crucial factor in the success of the company and allows Zalando to present compelling propositions to customers and fashion-brand partners.

04.1.2 GROUP STRUCTURE

GOVERNANCE AND CONTROL

The Zalando group is managed by the ultimate parent company, ZALANDO SE, based in Berlin, Germany, which bundles all management functions.

Group revenue was almost exclusively generated by ZALANDO SE. In addition to the parent company, Zalando comprises 24 subsidiaries that operate in the areas of fulfillment, customer service, product presentation, advertising, marketing and the development of private labels exclusively for ZALANDO SE. ZALANDO SE and its subsidiaries thus encompass the entire value chain of an online retailer. ZALANDO SE has full control over all subsidiaries, either indirectly or directly.

As a result, group reporting essentially corresponds to the reporting for ZALANDO SE. Supplementary information concerning the separate financial statements is presented in section 02.6.

The Management Board of ZALANDO SE currently comprises three members, who are responsible for the group's strategy and management. Rubin Ritter is responsible for operations, sales finance and corporate governance. Robert Gentz is responsible for technology, human resources and strategy. David Schneider's area of responsibility comprises brand marketing, sourcing and private labels. Consisting of nine members, the Supervisory Board advises the Management Board and monitors its management activities. The Supervisory Board is directly involved in decisions of fundamental importance to the company. In particular, it reviews the annual financial statements and management reports and it reports on the audit to the annual general meeting. Zalando's long-term investors, employees and independent experts are represented on the Supervisory Board. The remuneration of the Management Board and the Supervisory Board and the incentive and bonus systems are explained in the remuneration report. The remuneration report and takeover disclosures pursuant to Secs. 289 (4) and 315 (4) HGB ["Handelsgesetzbuch": German Commercial Code], which are components of the combined management report, are presented in the corporate governance report. The corporate governance report also includes the declaration of conformity.

GROUP SEGMENTS

ZALANDO SE's internal reporting structure is based initially on a sales channel related perspective. In a second step, the Management Board also monitors the development of the business for the main sales channel Zalando shop according to a geographical breakdown into the regions DACH (Germany, Austria and Switzerland), Northern Europe (Sweden, Finland, Denmark and Norway), southern Europe (France, Italy and Spain), and Eastern and Western Europe (the Netherlands, Belgium, Poland, Luxembourg and the United Kingdom). For external reporting purposes, regions outside of DACH are summarized in the Rest of Europe reporting segment. All other sales channels are grouped under the Other segment, which mainly comprises revenue generated by the Zalando Lounge sales channel and the new platform initiatives. The revenue from Zalando Lounge stems from additional sales campaigns for selected products at reduced prices.

04.1.3 STRATEGY AND OBJECTIVES OF THE GROUP

Zalando is Europe's leading online platform for fashion. Almost 10,000 employees are committed to fulfilling customer expectations. The company provides a fashion platform to to around 18 million active customers in 15 countries and is a key retail partner for over 1,500 brand partners.

The successful development in recent years evidences the strength of Zalando's business. It creates the foundation from which the revenue and earnings targets can be reached. The group aims to generate profitable revenue growth in a range of 20–25% per year for the next few years, by further expanding its market share in the European online fashion industry. Zalando's management defined four focus areas for 2016 and is still pursuing these to increase revenue while retaining profitability.

ZALANDO AS A PLATFORM AND DIGITAL PARTNER FOR FASHION PARTNERS

Zalando is planning to further diversify from being a wholesale online retailer that primarily buys and sells merchandise to a platform model. Under this strategic direction, the company intends to establish itself as a platform that brings customers and fashion together. Zalando is further developing its operational and technological infrastructure to enable all participants to create value through the Zalando platform. Participants include customers, brands/merchants and intermediaries (for example, fashion stylists, logistics providers and marketing affiliates).

Going forward, Zalando plans to also accommodate marketplace models where brands will be able to sell directly to the consumer via the Zalando platform, thereby keeping and managing their own inventory risk (versus Zalando taking ownership of the merchandise).

Zalando technology forms the foundation for the fashion platform. The more partners and products join the platform, the more diverse it will be. Zalando actively addresses the challenges facing its fashion partners and seeks out which solutions it can offer. As Technology is one of Zalando's core competencies the company can offer additional benefit to the fashion partners and hence become their digital strategic partner. The Zalando shop and its mobile applications give Zalando a wide reach while simultaneously providing a wealth of information on user behavior and customer buying patterns. These analyses allow the fashion labels to place the relevant advertising for their target markets. Zalando aims to win as many different partners for the platform as possible and combine them in an intelligent manner with the requisite technological expertise.

CUSTOMER SATISFACTION WITH FOCUS ON MOBILE DEVICES

The needs and expectations of the customer are at the heart of Zalando. The company aims to inspire customers through its diverse range of brands, its appealing and customized functions in the online shop, its product-related services and its new, customer-oriented mobility solutions. Zalando strives to meet customer needs in order to achieve lasting customer relationships. As the product assortment grows, the need to personalize our offering becomes more important. A search engine for fashion products, automatically generated shopping recommendations and comprehensive personalized advice contribute to the shopping experience.

Zalando sees great potential in mobile internet usage. The focus is on the development of new designs and content for mobile devices. We believe the growing trend of people accessing the internet from mobile devices such as smartphones and tablets, rather than from stationary PCs, will continue in 2016. Zalando is addressing this change in user behavior and adapting its business model accordingly. Zalando is certain that investment in this new technology is essential, both in terms of long-term success and further extending its market position.

ATTRACTIVE EMPLOYER

Satisfied and motivated employees are the key benchmark for any attractive employer. Consequently, the objective is not only to appeal to external applicants, but also to invest in Zalando's own employees and managers. Zalando aims to do this by showing appreciation to employees, coaching managers intensively and redefining Zalando's values and visions. Zalando's goal is to create a working atmosphere in which all employees enjoy their job, think and act like entrepreneurs, take on board the shared goals of the company and are willing to seize the initiative to meet their challenges. Moreover, this ownership culture will be encouraged by giving employees more participation in the company.

COMMERCIAL AND OPERATIONAL EXCELLENCE

Commercially, Zalando strives to reach its revenue growth and EBIT margin goals in a capital efficient manner. In addition to technological developments, Zalando also strives to optimize its processes in all units. Greater cost consciousness in all key departments will underscore the focus on making investments in improving business processes for the future. In addition, the organization of the platform will involve an arrangement between suppliers, customers, brands and the Fashion Shop on the management, legal structure and services rendered.

04.1.4 MANAGEMENT SYSTEM

In addition to revenue, EBIT, EBIT margin and adjusted EBIT margin, other key financial performance indicators for corporate management include the adjusted and unadjusted fulfillment and marketing cost ratios, along with adjusted EBIT and EBITDA. Net working capital and operating cash flow are also taken into account. The Management Board steers the company at a consolidated group level.

In addition to these financial indicators, Zalando also uses a range of non-financial performance indicators to manage the company.

- **Ratio of mobile site visits to total site visits:** Users are making greater use of mobile devices to access the internet. In our effort to offer customers the opportunity to enjoy high quality shopping on their mobile devices, Zalando continues to develop and refine its websites and apps. As a result, the ratio of website visits from mobile devices to the total number of website visits increased by around 14.8 percentage points in 2015, rising from 42.3% in 2014 to 57.1%.

- **Number of active customers:** The Zalando group measures its success by the number of active customers. Each customer that has placed at least one order within the last year (based on the reporting date) is considered active. Compared to the prior year, the number of active customers increased by 3.2 million, rising from 14.7 million to 17.9 million in 2015.

- **Number of orders:** In addition to revenue, the number of orders placed is a key performance indicator for the management of the group. This indicator is monitored independently from the value of merchandise and is a key driver of growth. In 2015, the number of orders placed increased from 41.4 million in 2014 to 55.3 million.

- **Average number of orders per active customer:** The average number of orders placed by active customers during the last twelve months totaled 3.1 as of December 31, 2015 (prior year: 2.8).

- **Average basket size:** Similar to the number of orders placed, the average basket size has a direct effect on the revenue of the group. It is also an important indicator of the trust customers place in the company. The increase in the average basket size from EUR 66.6 to EUR 67.8 in fiscal year 2015 is another important step for Zalando.

04.1.5 RESEARCH AND DEVELOPMENT

Zalando develops key components of its software internally. This ensures that the software is aligned with the operating processes in the best possible way. For example, order and fulfillment processes in particular are supported using internally developed software. Important technical developments in 2015 included a tool to manage model licenses, Zalon (fashion curation for desktops and apps), My Feed Integration in apps, same-day delivery, DHL Prio Delivery, Apple Pay integration, new versions of the Zalando iOS and Android apps, SLA-based batching for the fulfillment centers, brand shop insights for Zalando brand partners and many more developments.

Software development at Zalando relates to the structured, labor-intensive phase of programming and implementing significant system upgrades, further developing components and enhancing functionalities along the entire process chain.

Development work at Zalando is performed by teams of developers which are organized by the respective function/line: e.g. Fashion Store, Marketplaces, Payment & Incentives and Brand Solutions.

In 2015, the group recognized development costs of EUR 23.1m (prior year: EUR 18.8m), of which EUR 9.2m relates to prepayments (prior year: EUR 1.9m). The increase in development costs is attributable to the enhancement of the above-mentioned software and new technical projects.

Research costs were immaterial.

04.1.6 SUSTAINABILITY

For Zalando, sustainability is a matter of combining economic success with environmentally-friendly and socially responsible activities. The objective is to structure the company's growth in a responsible way. In this way, Zalando meets the requirements of its stakeholders and can avoid potential risks which could negatively impact Zalando's long-term success.

Clear organizational structures and management systems ensure that Zalando can professionally steer and implement sustainability principles within the company. Strategic responsibility for sustainability within Zalando lies with the Management Board, supported by the General Counsel. The Corporate Social Responsibility (CSR) team, which steers and develops sustainability themes in the operating environment, reports to the General Counsel. The team drives sustainability forward within the company, identifies potential risks, defines goals and measures, coordinates activities and ensures knowledge transfer to other departments. The CSR team pursues and measures the implementation of the sustainability strategy and identifies any need for change, both across the whole company and within the individual functions. It is supported by the respective departments which identify and implement measures to further the Zalando sustainability strategy, such as the Ethical Trade Team for private labels. To avoid risks and ensure compliance, the CSR team works closely with the Governance, Risk & Compliance (GRC) team.

The reporting year marks the first time that the company has developed a sustainability strategy to govern the way to address ecological and social issues. Zalando has bundled existing measures and aligned future activities towards minimizing the ecological and social risks arising from the business activities on the one hand and seizing the opportunities arising from the global mega-trends and the business model on the other. This strategic process led to a variety of specific actions related to environmental protection, industrial health and safety, product responsibility and other areas, all of which Zalando has combined in its sustainability roadmap and goals.

Additional information regarding our sustainability strategy is provided in the separate section 01.7 Sustainability.[1]

1) The section sustainability report is not part of the audited combined management report

04.2 REPORT ON ECONOMIC POSITION

04.2.1 MACROECONOMIC AND SECTOR-SPECIFIC ENVIRONMENT

Impacted by a challenging economic climate, the European retail industry[2] reported annual growth of only close to 2% in 2015. Driven by the overall mega-trend towards online shopping, online retail was growing significantly faster, closing 2015 over 13% up on the prior-year. The European fashion market[3] posted a trading volume of around EUR 417bn in the reporting year, equivalent to a nominal growth rate of 1% compared to the prior year, slightly higher than in prior years (average annual growth rate of 0.4% in the last five years).[4] The online fashion market developed far better across Europe, growing by over 10% to EUR 46bn in 2015 compared to the prior year.[5]

The figures for the German retail industry show a similar picture with nominal growth of close to 2% compared to the prior year. Similarly, the internet retail segment developed at a much faster pace than retail as a whole. In nominal terms, for example, revenue in 2015 was up almost 13% on the prior-year figure. Following low sales growth in 2014, the German fashion industry again only generated marginal nominal growth in 2015 of just 0.3%. Similar to 2014, the weather created problems for the fashion industry in many months of 2015. In particular, a heatwave in August and the substantially higher than average temperatures in November and December hampered the sell-through of seasonal collections.[6,7] Despite these weather conditions, German online fashion retailers were able to increase sales in 2015 by more than 8% compared with the previous year, up to a market volume of almost EUR 12bn.

In our opinion, the bright prospects for European fashion and internet retail described below offer additional market opportunities for our business model:

- Online trade with fashion items is part of a second wave of e-commerce. The share of fashion items sold on the internet will continue to grow in contrast to fashion items sold by traditional brick and mortar retailers.

- Europe is a highly attractive fashion market with a concentration of affluent customers and high population density. In our main sales markets in Western Europe fashion spending per person came to EUR 771 in 2015, making the region the world leader.[8] Furthermore, the western European fashion market displays the highest spend per square kilometer worldwide (estimated at EUR 86.5k per square kilometer, compared to a spend of roughly EUR 14.9k per square kilometer on fashion worldwide).[9] Spending per square kilometer is an important indicator for online retailers, as higher spending per square kilometer allows for a comparatively faster and lower-cost delivery.

- Online fashion retailers can typically generate gross margins between 40% and 60%. These margins are considerably higher than those of online retailers in other product categories, e.g., electronics.[10]

2) The data on the European retail market relate to Europe excluding Russia
3) The data on the European fashion market relate to Europe excluding Russia
4) Euromonitor International, retail segment including grocery retailers
5) Euromonitor International, retail segment including grocery retailers
6) Textilwirtschaft: Nur Gleichstand, No. 2B, January 14, 2016
7) Euromonitor International, retail segment including grocery retailers
8) Euromonitor International
9) Euromonitor International
10) Company information; average gross margins of selected publicly listed e-commerce companies in 2014 including Asos, Yoox and Boohoo based on publicly available information

- Mobile devices have made a considerable contribution to the strong growth in online retail trade. This also applies to the online sale of fashion. Smartphones and tablets give consumers access to fashion anytime and practically anywhere. Growth clearly shows that customers are ordering an increasing number of products via mobile devices. Forecasts for mobile commerce illustrate that this trend may well continue for the coming five years at an average annual growth rate of roughly 18%.[11]

In our opinion, the market environment for online sale of fashion offers great opportunities.

04.2.2 BUSINESS DEVELOPMENT

Zalando looks back on a very successful fiscal year 2015. Compared to 2014, the group reported further strong growth in the period, generating revenue of more than EUR 2,958.2m (prior year: EUR 2,214m). All segments recorded growth in revenue (DACH: up 28.0%, Rest of Europe: up 40.5% and Other: up 41.8%. At EUR 1,580.1m, the core DACH segment continues to record the highest revenue (prior year: EUR 1,234.0m), followed by Rest of Europe, which recorded revenue of EUR 1,211.6m in 2015 (prior year: EUR 862.6m). Zalando grew faster than the market again in 2015, gaining market share in all countries.

Clothing remained Zalando's strongest product category in terms of revenue in 2015. The customer base continued to grow, reaching 17.9 million active customers as of December 31, 2015 as compared to 14.7 million active customers on December 31, 2014.

In addition to further expansion of its existing sales channels, Zalando invested more heavily in raising its quality standards in 2015 to consistently increase customer satisfaction throughout. It also made large-scale investments in the technology needed to drive forward its platform strategy. These included the opening of two new international technology locations in Dublin and Helsinki where data analysts are devoted to improving the online shopping experience and developing innovative customer-oriented products such as new apps. In addition, the Brand Solutions business unit is fostering the cooperation with brand partners to expand the assortment in the Zalando shop. In the meantime, over 1,000 individual brand shops have been established in the Zalando shop. By means of computer-based systems, the brands are given control over the content and design of their shops and obtain insights from mining the data on the online shopping behavior of their customers.

With over 1,000 employees in its technology team, Zalando handles many processes in house, from onsite design to payment transactions, fulfillment, product and purchasing software. To further improve the leading position in a rapidly changing market environment, Zalando remains actively focused on customers' increasing preference for mobile devices. Zalando's customers in all international markets can now enjoy the mobile shopping experience on any of the main operating system platforms. As a result, 57.1% of visits to the Zalando online shop were conducted from a mobile device in fiscal year 2015. By the end of fiscal year 2015, the app had been downloaded more than 16 million times.

11) Euromonitor International

In the logistics area, the fulfillment center in Mönchengladbach was further enlarged. The shopping experience was further enhanced in 2015 by innovations to business processes, such as same day delivery, express delivery, more convenient returns, and a greater variety of mailing and return options.

As curated shopping solution, Zalon has been introduced and has been offering its customers in Germany, Austria and Switzerland individual shopping advice since the spring of 2015. With the aim of providing customers tailored advice from one of our over 200 Zalando fashion consultants, this step is another manifestation of our constant goal of improving our services.

Zalando aims to involve its employees more in business decisions. The feedback culture was further strengthened in 2015 with the implementation of monthly surveys, from which measures are directly derived. Two-weekly webcasts presented by the senior management team make strategic issues more transparent and give employees the opportunity to discuss any ad-hoc questions.

Zalando went public in October of the prior year, already gaining admittance to the SDAX in December 2014. Since June 2015, the shares of Zalando SE have been included in the MDAX, the second most important stock market index of Deutsche Börse. During the year Zalando also joined the international MSCI Germany Index (December, 2015) and the European STOXX 600 (December, 2015). Through the inclusion in these indices Zalando gained increased visibility in the capital markets.

04.2.3 ECONOMIC SITUATION

FINANCIAL PERFORMANCE OF THE GROUP

The Zalando group continued to grow rapidly in fiscal year 2015. In the reporting period, the condensed consolidated income statement shows a considerable rise in revenue and a significant improvement in earnings before interest and taxes (EBIT) compared to the prior year.

17 CONSOLIDATED INCOME STATEMENT

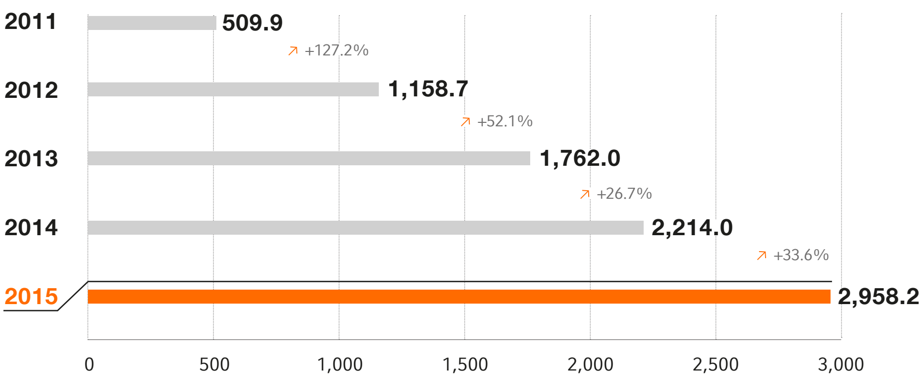
IN EUR M	JAN 1– DEC 31, 2015	AS % OF REVENUE	JAN 1– DEC 31, 2014	AS % OF REVENUE	CHANGE
Revenue	2,958.2	100.0%	2,214.0	100.0%	0.0pp
Cost of sales	–1,624.0	–54.9%	–1,255.3	–56.7%	1.8pp
Gross profit	**1,334.1**	**45.1%**	**958.7**	**43.3%**	**1.8pp**
Selling and distribution costs	–1,118.9	–37.8%	–793.8	–35.9%	–2.0pp
Administrative expenses	–129.0	–4.4%	–109.2	–4.9%	0.5pp
Other operating income	10.2	0.3%	12.2	0.6%	–0.3pp
Other operating expenses	–7.0	–0.2%	–5.8	–0.3%	0.0pp
Earnings before interest and taxes (EBIT)	**89.6**	**3.0%**	**62.1**	**2.8%**	**0.2pp**

18 OTHER CONSOLIDATED FINANCIAL INFORMATION

IN EUR M	JAN 1–DEC 31, 2015	JAN 1–DEC 31, 2014	CHANGE
EBIT margin (as % of revenue)	3.0%	2.8%	0.2pp
Adjusted EBIT (excl. equity-settled share-based payments)	107.5	81.9	25.6
Adjusted EBIT margin (as % of revenue)	3.6%	3.7%	–0.1pp
EBITDA	123.8	87.9	35.9
Adjusted EBITDA (excl. equity-settled share-based payments)	141.7	107.7	34.0

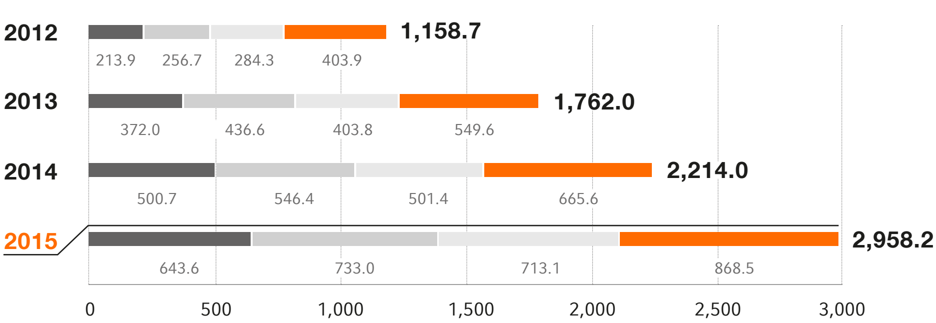
DEVELOPMENT OF REVENUE

01 ANNUAL REVENUE GROWTH IN EUR M (2011–2015)



In 2015 Zalando increased its revenue by EUR 744.2m in comparison to the prior year, raising it from EUR 2,214.0m to EUR 2,958.2m. As a result, revenue is up roughly 34% on the prior year. The increase in revenue can be attributed primarily to a higher number of orders.

02 REVENUE IN EUR M (2012–2015) BY QUARTER



The variance in revenue over the course of the year reflects the seasonality of the business. Typically, the fall and winter collections are sold at higher prices than the spring and summer goods. This means that revenue levels tend to be higher in the second half of the fiscal year than the first half. In addition, the second and fourth quarters tend to be stronger than the first and third quarters, as they do not contain the sale periods that are typically towards season end. At EUR 868.5m, group revenue in the fourth quarter was up 30.5% on the comparable period of the prior year (Q4 2014: EUR 665.6m).

The key performance indicators developed as follows in the reporting period:

19 KEY PERFORMANCE INDICATORS

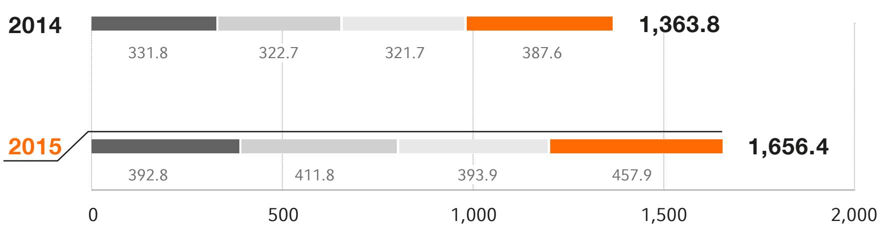
PERFORMANCE INDICATORS*	JAN 1–DEC 31, 2015	JAN 1–DEC 31, 2014	CHANGE
Site visits (in millions)	1,656.4	1,363.8	21.5%
Mobile visit share (as % of site visits)	57.1	42.3	14.8pp
Active customers (in millions)	17.9	14.7	22.4%
Number of orders (in millions)	55.3	41.4	33.5%
Average orders per active customer	3.1	2.8	9.1%
Average basket size (in EUR)	67.8	66.6	1.8%
Revenue (EUR m)	2,958.2	2,214.0	33.6%
Adjusted fulfillment cost ratio (as % of revenue)	25.8	22.3	3.5pp
Adjusted marketing cost ratio (as % of revenue)	11.7	13.2	–1.4pp
Fulfillment cost ratio (as % of revenue)	25.9	22.5	3.4pp
Marketing cost ratio (as % of revenue)	11.9	13.4	–1.5pp
EBIT (in EUR m)	89.6	62.1	44.3%
Adjusted EBIT (in EUR m)	107.5	81.9	31.3%
EBIT margin (as % of revenue)	3.0	2.8	0.2pp
Adjusted EBIT margin (as % of revenue)	3.6	3.7	–0.1pp
EBITDA (in EUR m)	123.8	87.9	40.8%
Adjusted EBITDA (in EUR m)	141.7	107.7	31.6%
Net working capital (in EUR m)	–2.6	–3.7	–30.3%
Operating cash flow (in EUR m)	119.4	174.8	–31.7%

*) For an explanation of the performace indicators please refer to the Glossary

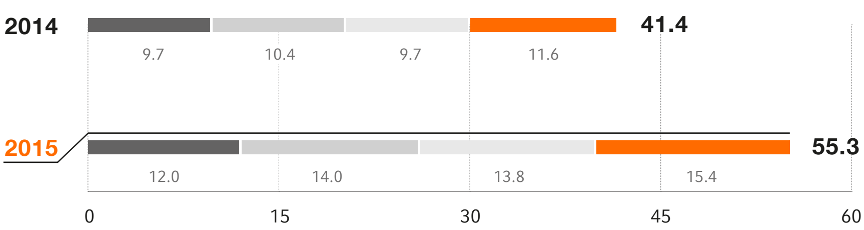
Zalando's most important performance indicators are revenue, EBIT margin and adjusted EBIT margin, average basket size as well as number of orders. These are forecast for the fiscal year 2016 in section 02.5.

Despite the extremely hot summer and mild winter, revenue rose significantly once again in 2015. The rise in revenue is mainly attributable to a 33.5% increase in orders on the prior year and a 1.8% increase in the average basket size. The higher number of customer orders was driven in particular by a 21.5% increase in site visits. The higher traffic on the website also relates to a significant increase in the share of visitors that access the website on their mobile devices. Compared to the prior-year, the share of site visits via mobile devices rose by 14.8 percentage points to 57.1% in 2015. Furthermore, the number of active customers rose by 22.4% to 17.9m.

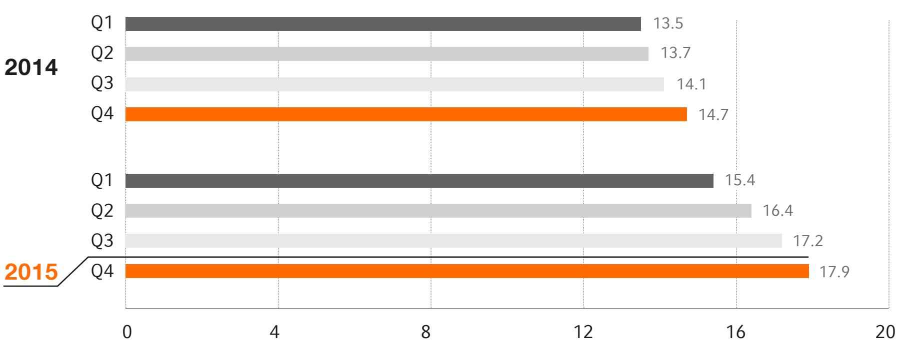
03 SITE VISITS IN MILLIONS (2014–2015) BY QUARTER



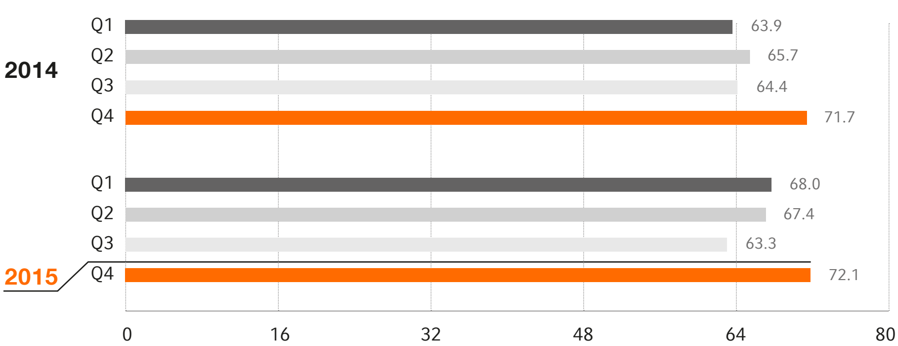
04 NUMBER OF ORDERS IN MILLIONS (2014–2015) BY QUARTER



05 NUMBER OF ACTIVE CUSTOMERS IN MILLIONS (2014–2015) BY QUARTER



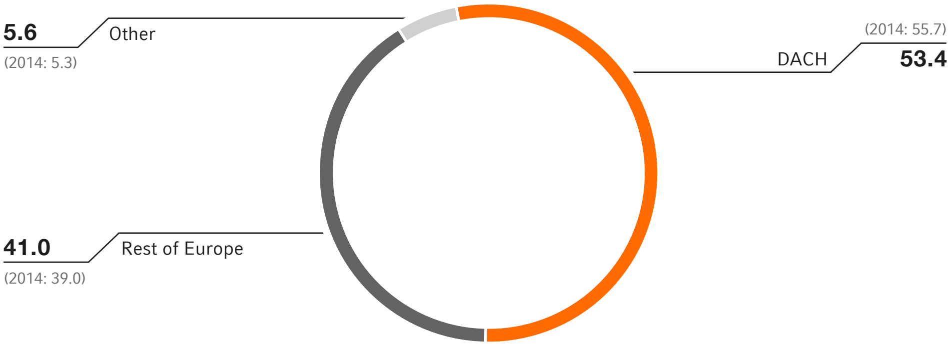
06 AVERAGE BASKET SIZE IN EUR (2014–2015) BY QUARTER



Zalando is profiting from a strong increase in demand from younger customers thanks to the larger assortment of lower price articles and the ease of mobile access to the offering. The close cooperation between Zalando and fast fashion brands, for example, Topshop, Topman and Mango, has helped raise the popularity of Zalando in the fashion sector.

Revenue by segments breaks down as follows:

07 REVENUE IN EACH SEGMENT 2015 IN % (2014 IN %)



In fiscal year 2015, DACH countries again generated more than half of the total annual revenue. At the same time, revenue recorded in the Rest of Europe and Other segments increased significantly, also contributing strongly to the overall revenue growth.

In the largest segment, DACH, revenue reached EUR 1,580.1m in 2015 (prior year: EUR 1,234.0m), equivalent to an increase of 28.0% compared with 2014.

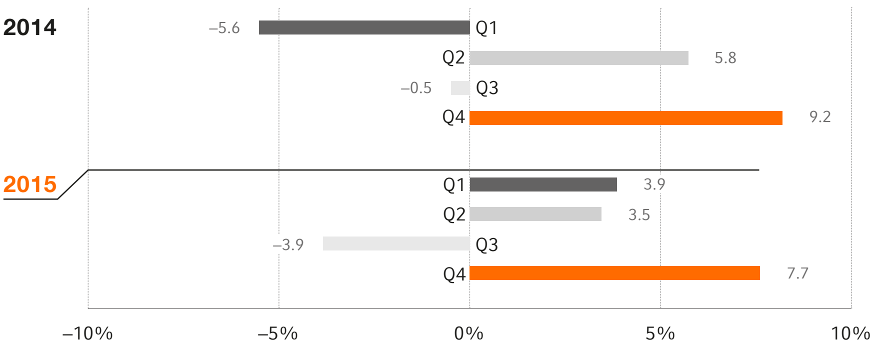
The Rest of Europe segment generated revenue of EUR 1,211.6m in 2015 (prior year: EUR 862.6m). This corresponds to a 40.5% increase in revenue compared to 2014.

Revenue development was also supported by the Other segment, which comprises the business activities of Zalando Lounge, projects deriving from our platform strategy and the group's offline activities.

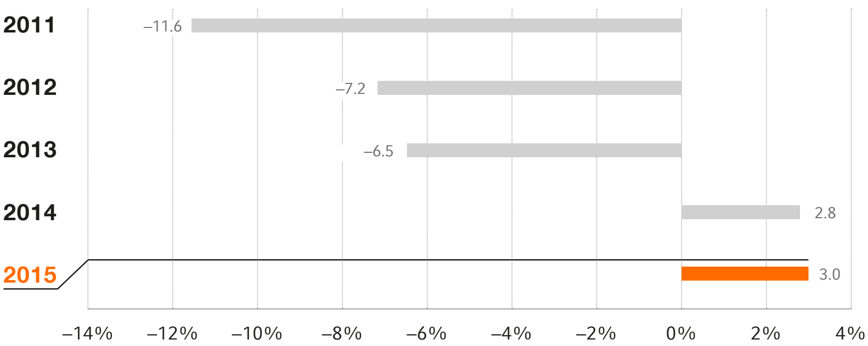
DEVELOPMENT OF EBIT

The group recorded EBIT of EUR 89.6m in 2015 (prior year: EUR 62.1m). The improvement in the EBIT margin of 0.2 percentage points, from 2.8% in 2014 to 3.0% in 2015, reflects efficiency gains in some key cost items.

08 EBIT MARGIN (2014–2015) BY QUARTER



09 YEARLY EBIT MARGIN (2011–2015)



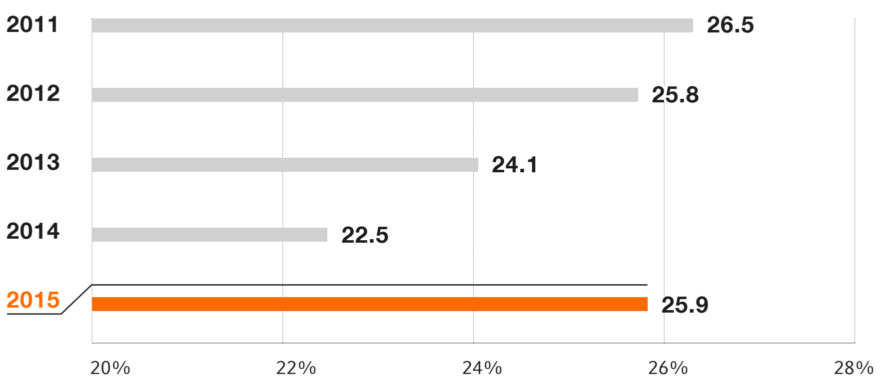
EBIT comprises the following expenses from equity-settled share-based payments. More information can be found in the notes.

20 SHARE-BASED COMPENSATION EXPENSES PER FUNCTIONAL AREA

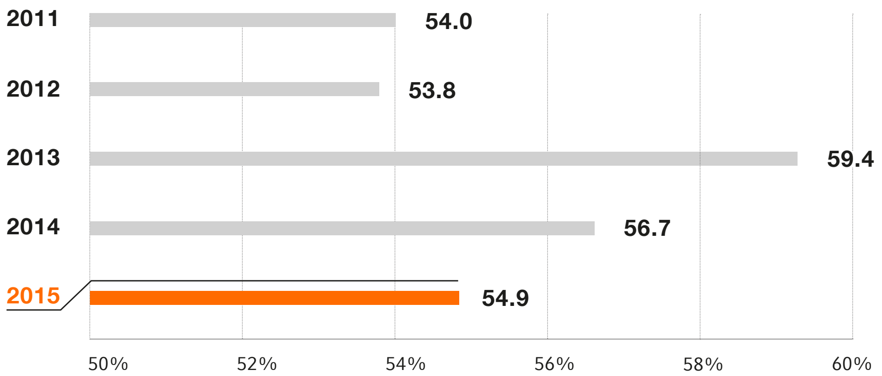
IN EUR M	JAN 1–DEC 31, 2015	JAN 1–DEC 31, 2014	CHANGE
Equity-settled share-based compensation expenses	**17.9**	**19.8**	**–1.9**
Cost of sales	4.5	4.4	0.1
Selling and distribution costs	9.0	9.6	–0.6
thereof marketing costs	4.5	4.1	0.4
thereof fulfillment costs	4.5	5.5	–1.0
Administrative expenses	4.5	5.8	–1.3

FIVE-YEAR SUMMARY OF COST ITEMS (NON-ADJUSTED)

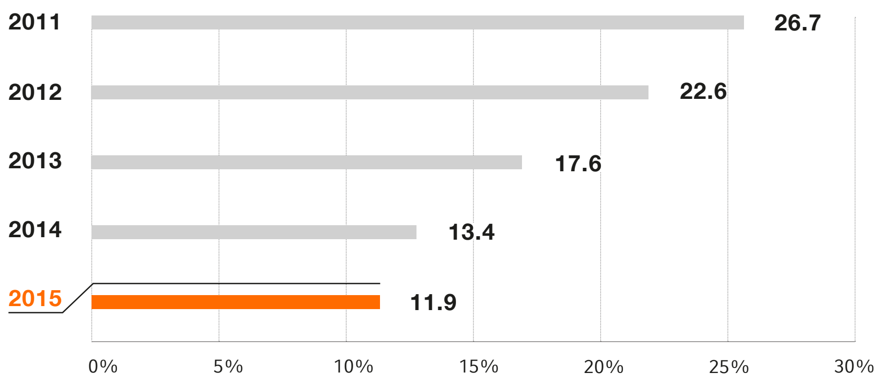
10 FULFILLMENT COSTS (IN % OF REVENUE)



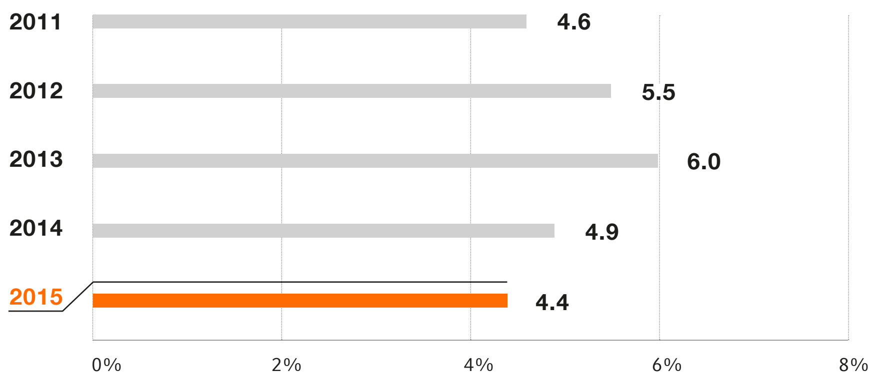
11 COST OF SALES (IN % OF REVENUE)



12 MARKETING COSTS (IN % OF REVENUE)



13 ADMINISTRATIVE EXPENSES (IN % OF REVENUE)



Cost of sales rose by EUR 368.7m to EUR 1,624m in line with the expansion of business. At 45.1%, the gross profit margin improved significantly on the prior year (43.3%). This positive development was due in particular to lower price reductions compared with the prior year. Improved terms and conditions arranged with suppliers also had a positive impact on the gross profit margin (including the optional in-season order share).

Selling and distribution costs (sum of fulfillment and marketing costs) as a percentage of revenue increased by 2.0 percentage points, rising from 35.9% in 2014 to 37.8% in 2015. The increase in fulfillment costs was mainly driven by external fraud. Zalando focusses on an improving, first class customer experience. On the one hand, fulfillment costs reflect the investments in more rapid delivery as well as the mobile and platform technology. On the other hand, they also include impairment losses recorded on receivables. This is a reflection of more customer-friendly payment methods, which led to a higher share of orders placed on account in the first six months of 2015 and to a higher volume of external fraud. As a percentage of revenue, fulfillment costs increased from 22.5% in 2014 to 25.9% in 2015.

Due to further leverage from an increasing share of returning customers, coupled with more effective steering, marketing costs were substantially reduced relative to revenue, falling by 1.5 percentage points to 11.9%.

Administrative expenses rose slightly due to the growth in business. Nevertheless, relative to revenue, these expenses decreased by 0.5 percentage points to 4.4%.

EBIT margin improved by 0.2 percentage points in comparison to the prior year, rising from 2.8% in 2014 to 3.0% in 2015. In absolute terms, EBIT increased by EUR 27.5m from EUR 62.1m to EUR 89.6m. The main drivers were the increase of 1.8 percentage points in the gross profit margin, continued improvement of 1.5 percentage points in the marketing cost ratio, and the improvement of 0.5 percentage points in administrative expenses relative to revenue. The fulfillment cost ratio increased from 22.5% in 2014 to 25.9% in 2015, which had an negative impact on the EBIT margin.

In order to assess the operating performance of the business, Zalando management also considers adjusted EBIT and the adjusted EBIT margin before expenses for equity-settled share-based payments. Zalando recorded an adjusted EBIT of EUR 107.5m in 2015 (prior year: EUR 81.9m). Despite the growth and higher investments the adjusted EBIT margin only decreased marginaly by 0.1 percentage points from 3.7% in 2014 to 3.6% in 2015.

RESULTS BY SEGMENT

The development of revenue and earnings reported by the segments of the Zalando group can be summarized as follows:

21 GROUP SEGMENT RESULTS

IN EUR M	JAN 1–DEC 31, 2015	JAN 1–DEC 31, 2014	CHANGE
Revenue			
DACH	1,580.1	1,234.0	346.1
Rest of Europe	1,211.6	862.6	349.0
Other	166.5	117.4	49.1
Earnings before interest (EBIT)			
DACH	92.2	72.3	19.9
Rest of Europe	–10.2	–18.6	8.4
Other	7.5	8.4	–0.9
Other segment financial information			
Adjusted EBIT DACH	101.9	83.0	18.9
Adjusted EBIT Rest of Europe	–3.3	–11.6	8.3
Adjusted EBIT Other	8.9	10.5	–1.6

EBIT comprises the following expenses from equity-settled share-based payments:

22 SHARE-BASED COMPENSATION EXPENSES PER SEGMENT

IN EUR M	JAN 1–DEC 31, 2015	JAN 1–DEC 31, 2014	CHANGE
Equity-settled share-based compensation expenses	**17.9**	**19.8**	**–1.9**
DACH	9.7	10.7	–1.0
Rest of Europe	6.9	7.0	–0.1
Other	1.3	2.1	–0.8

All segments contributed to the positive EBIT development in the group. With an EBIT margin of 5.8%, the DACH segment showed good profitability in 2015. EBIT margin fell slightly in comparison to the prior year, decreasing by 0.1 percentage points. Zalando improved EBIT margin in the Rest of Europe segment by 1.4 percentage points from –2.2% to –0.8%. The Other segment also recorded a decrease of 2.7 percentage points, resulting in an EBIT margin of 4.5% in 2015.

In order to assess the operating performance of the segments, Zalando management also considers EBIT and EBIT margin before expenses for equity-settled share-based payments. The DACH segment generated an adjusted EBIT margin of 6.4% in 2015. Compared to the prior year, the adjusted EBIT margin decreased by 0.3 percentage points. The Rest of Europe segment recorded a strong improvement in the adjusted EBIT margin compared to the prior-year, which rose by 1.0 percentage point from –1.3% to –0.3%. The Other segment showed good profitability, generating an adjusted EBIT margin of 5.3% in 2015. In comparison to the prior year, the adjusted EBIT margin decreased by 3.6 percentage points on account of a rise in marketing expenses for Zalando Lounge and investments made on account of new platform business initiatives.

FINANCIAL POSITION

The liquidity and the financial development of the Zalando group are presented in the following condensed statement of cash flows:

23 CONDENSED STATEMENT OF CASH FLOWS

IN EUR M	JAN 1–DEC 31, 2015	JAN 1–DEC 31, 2014
Cash flow from operating activities	**119.4**	**174.8**
Cash flow from investing activities	**–196.5**	**–51.8**
Cash flow from financing activities	**1.5**	**510.8**
Change in cash and cash equivalents	–75.7	633.8
Exchange-rate related and other changes in cash and cash equivalents	0.9	0.0
Cash and cash equivalents at the beginning of the period	1,051.0	417.2
Cash and cash equivalents as of December 31	**976.2**	**1,051.0**

In the past fiscal year Zalando generated a positive cash flow from operating activities of EUR 119.4m (prior year: EUR 174.8m). Despite an improvement in net income (which rose from EUR 47.1m in the prior year to EUR 121.5m in the reporting year), the cash flow from operating activities decreased, largely due to the non-cash recognition of deferred tax assets on unused tax losses. Furthermore cash flow was influenced by lower cash inflow from working capital, cash outflows for VAT liabilities and receivables, as well as lower cash inflows from recognizing reimbursement obligations towards customers.

The capital employed in net working capital has remained virtually unchanged on the prior year and essentially neutral.

Net working capital, consisting of inventories and trade and other receivables less trade payables and similar liabilities, amounted to EUR –2.6m as of December 31, 2015 (prior year: EUR –3.7m).

The negative cash flow from investing activities mainly results from cash invested in time deposits with an original term of more than three months and therefore is presented in the cash flow from investing activities. As of December 31, 2015 an amount of EUR 155.0m was invested in such time deposits (December 31, 2014: EUR 0.0m). Cash flow from investing activities further consists of investments in the logistics infrastructure relating primarily to the fulfillment centers in Erfurt and Mönchengladbach and capital expenditures on internally developed software as well as furniture and fixtures. An amount of EUR 16.8m was invested in corporate acquisitions.

As a result, cash and cash equivalents, decreased by EUR 74.8m during the year, resulting in Zalando carrying cash and cash equivalents of EUR 976.2m as of December 31, 2015.

Free cash flow decreased by EUR 81.2m from EUR 123.8m to EUR 42.6m compared to the prior year. The main factor in the decrease is the lower cash inflow from operating activities and the cash outflow of investing activities.

Zalando's liquidity position – as the sum of cash and cash equivalents plus time deposits with an original term of more than three months but less than twelve months – rose by EUR 80.3m in 2015. The increase was largely due to the cash inflow from operating activities and the release of restricted cash.

CREDIT FACILITY

On July 30, 2014, ZALANDO SE and certain subsidiaries closed on a revolving credit facility of EUR 200m with a group of banks. This facility can be drawn in various currencies. The revolving credit facility can be utilized for the general business purposes (including acquisitions) as well as for guarantees. The facility expires on July 30, 2019. As of December 31, 2015, an amount of EUR 26.4m had been utilized for bank guarantees.

NET ASSETS

The group's net assets are shown in the following condensed statement of financial position.

24 ASSETS

IN EUR M	DEC 31, 2015		DEC 31, 2014		CHANGE	
Non-current assets	253.1	12.0%	194.0	10.9%	59.1	30.5%
Current assets	1,863.5	88.0%	1,591.6	89.1%	271.9	17.1%
Total assets	**2,116.5**	**100.0%**	**1,785.5**	**100.0%**	**331.0**	**18.5%**

25 EQUITY AND LIABILITIES

IN EUR M	DEC 31, 2015		DEC 31, 2014		CHANGE	
Equity	1,271.4	60.1%	1,126.7	63.1%	144.7	12.8%
Non-current liabilities	31.3	1.5%	30.9	1.7%	0.4	1.3%
Current liabilities	813.8	38.5%	627.9	35.2%	185.9	29.6%
Total equity and liabilities	**2,116.5**	**100.0%**	**1,785.5**	**100.0%**	**331.0**	**18.5%**

In 2015 total assets increased by 18.5%. The statement of financial position is dominated by working capital and equity.

Key components of the software used by the group are developed internally. This ensures that the software is aligned with the operating processes in the best possible way. For example, order and fulfillment processes in particular are supported using internally developed software. In fiscal year 2015, additions relate to capitalized development costs of EUR 23.1m (prior year: EUR 18.8m), of which EUR 9.2m is contained in prepayments (prior year: EUR 1.9m). These exclusively concern production costs for internally developed software.

In 2015, investments in intangible assets amounted to EUR 38.3m (prior year: EUR 21.9m) while investments in property, plant and equipment totaled EUR 33.3m (prior year: EUR 17.5m).

Inventories in the fiscal year 2015 mainly comprised goods required for Zalando's core business. The EUR 145.1m increase in inventories to EUR 493.5m resulted from the increased business volume and as well as holding larger amounts of inventory in stock in order to increase availability and thus customer satisfaction.

Trade receivables as reported on December 31, 2015 were classified as current. The slight increase of EUR 9.6m to EUR 149.7m is primarily attributable to the higher volume in business.

Equity rose from EUR 1,126.7m to EUR 1,271.4m in the fiscal year. The EUR 144.7m increase primarily stems from the net income for the period. The capitalization of deferred tax assets in the amount of EUR 46.6m had a positive impact on the net result. In the reporting period, the equity ratio fell from 63.1% at the beginning of the year to 60.1% as of December 31, 2015 on account of the rise in total assets.

Current liabilities increased by EUR 185.9m in the reporting period. This increase is mainly attributable to trade payables and similar liabilities, which rose by EUR 153.7m, climbing from EUR 492.1m to EUR 645.8m in the reporting period. The increase is largely due to deliveries of merchandise and longer payment terms. Moreover, under reverse factoring agreements, suppliers' claims against Zalando totaling EUR 170.9m were transferred to various factors as of December 31, 2015 (December 31, 2014: EUR 90.5m). These items were recognized in the statement of financial position under trade payables and similar liabilities.

Net working capital, consisting of inventories and trade receivables less trade payables and similar liabilities, remained comparable to the prior year and amounted to EUR –2.6m as of December 31, 2015 (December 31, 2014: EUR –3.7m).

OVERALL ASSESSMENT

The Management Board views the business development in 2015 very positively. Zalando consciously focused on growth opportunities, made key strategic investments and yet remained clearly profitable in the process. The Zalando group increased its revenue markedly in fiscal year 2015 and won additional market share. The gross profit margin as a key retail indicator improved strongly. The EBIT margin stayed clearly profitable and was roughly flat compared to the prior year, driven by conscious investments to further improve the competitive positioning and market share of Zalando.

Overall, the company's targets in terms of revenue, EBIT and EBIT margin have been met. The 2014 group management report anticipated EBIT margin in 2015 to remain roughly at the same level as in the previous year. Similarly, it was assumed that Zalando would report revenue growth in a corridor between 20–25%. In this context a proportional increase in the number of orders and a similar level of average basket size was expected. During 2015 the increase in sales was stronger than forecast and resulted in upward guidance adjustments throughout the year. The increased growth guidance of 33–35% was also met by year-end. Therefore the group clearly exceeded its targets set in the 2014 group management report.

04.2.4 EMPLOYEES

At the end of 2015, Zalando had 9,987 employees (prior year: 7,588), representing an increase of 31.6% on the prior year. The average headcount grew by 1,709 to 9,205. The significant growth was primarily driven by increasing headcount in the technology departments and at the fulfillment centers.

Additional information regarding our sustainability strategy is provided in the separate sustainability report. For more information we refer to section 01.7.[12]

12) The section to sustainability is not part of the audited combined-management report

04.3 SUBSEQUENT EVENTS

There were no significant events occurring after the end of the fiscal year which could materially affect the presentation of the financial performance and position of the group.

04.4 RISK AND OPPORTUNITY REPORT

Zalando is regularly confronted by risks and opportunities that may positively or negatively impact the group's financial performance and position. The risk and opportunity report outlines our company's most important risks and opportunities.

04.4.1 INTEGRATED RISK AND OPPORTUNITY MANAGEMENT SYSTEM

The Management Board of ZALANDO SE bears overall responsibility for an effective risk and opportunity management system. This is ensured through the comprehensive and standardized management of all key risks and opportunities.

Zalando created a separate department to identify these at an early stage and to analyze, manage, monitor and counteract them with appropriate measures. The Governance, Risk & Compliance (GRC) department continuously develops risk management instruments and the methodology (changes to the methodology are detailed in the "Risk reporting and methodology" section below). This ensures that risks and opportunities are documented throughout the company using a uniform method.

The basis for successful risk management is group-wide standards for systematically handling risks and opportunities. These standards are defined in the GRC Manual and put into force by the Management Board. The GRC function coordinates the defined core process (GRC cycle), which ensures standardized procedures to assess, analyze and report on risks and the management measures implemented. The GRC cycle is designed to support important decisions with consistent, comparable and transparent information.

The GRC function reports to the Management Board on the risk situation on a biannual basis. If critical issues arise, the regular reporting process is supplemented by internal ad-hoc reporting. All employees of Zalando are asked to manage risks in their activities intelligently and prevent risks that could jeopardize the company's ability to continue as a going concern. The Internal Audit team reviews the functional capacity and appropriateness of the risk management system regularly. The audit committee set up by the Supervisory Board also monitors the effectiveness of the internal control, risk management and audit systems including interaction with the auditors.

For this reporting period, the layout of the report changed due to the first-time implementation of Zalando's integrated approach. The overall analysis and report also include an evaluation of opportunities, which are taken into account when assessing risks. Furthermore, the description is now based on individual risks and opportunities instead of aggregated risk clusters (which had been used for fiscal year 2014). More information on the risk clusters used in the past is provided in section 02.4.4 below. Significant major opportunities are described together with the risks in detail in the section 02.4.5 "Overview of current risks and opportunities" section. Market opportunities and general opportunities are described in a separate section.

In addition to the latest findings from applying this adjusted methodology, an additional assessment using the 2014 risk cluster structure is provided to ensure transparency and to allow the results of the current reporting period to be compared to the prior-year period.

04.4.2 COUNTERMEASURES AND INTERNAL CONTROL SYSTEM

Zalando reviews all identified risks and opportunities at least twice a year to determine whether they are up to date and, in some cases, more frequently depending on their severity. The documentation is updated regularly in the comprehensive risk catalog, which is set up as a risk control matrix (RCM). Relevant countermeasures, controls and responsibilities are assigned to each risk. The adherence and effectiveness of the relevant countermeasures and controls is assessed by the Internal Audit team as part of their scheduled audits for the different functions.

SYSTEM OF INTERNAL FINANCIAL REPORTING CONTROLS

In addition to the overall risk and opportunity management system described above, Zalando has implemented a more detailed system of internal financial reporting controls. Pursuant to section 315 (2) No. 5 HGB ["Handelsgesetzbuch": German Commercial Code], the key features of this system are explained below. It aims to identify, assess and manage all risks that could have a significant impact on the proper preparation of the separate and consolidated financial statements. As an integral component of the accounting and reporting process, the system of internal financial reporting controls comprises preventive, monitoring and investigative control measures in accounting and operational functions which ensure a methodical process for preparing the financial statements. The control system is based on the various company processes that have a significant impact on financial reporting.

These processes and the relevant risk for the financial reporting are analyzed and documented. A cross-process risk control matrix contains all controls, including a description of the control, type of control, frequency with which it is carried out, the covered risk and the person responsible. The control mechanisms implemented affect multiple processes and thus frequently overlap. These mechanisms, among other things, include determining principles and procedures, defining processes and controls, introducing approval and testing plans and guidelines. The group-wide accounting manual provides detailed accounting instructions; the processes for assessing inventories and receivables are central components. The system of internal controls is subject to regular reviews by the Accounting department and modifications resulting from risk workshops conducted by the GRC department or risk-based assessments performed by Internal Audit.

04.4.3 RISK REPORTING AND METHODOLOGY

To improve transparency, reporting on significant individual risks and opportunities has replaced reporting on aggregated clusters of risks and opportunities.

Zalando has continued to grow and further expand its business. Additionally, capital resources have improved significantly, mainly as a result of the IPO. As a result of these developments and as part of the continuous optimization of the risk management system, the thresholds for all risk classes were increased.

We compare the risk classes used in 2014 and in 2015 in the table below.

26 RISK CLASSES

CLASS	LOSS AMOUNT 2014	LOSS AMOUNT 2015
1 (very low)	EUR 0.05m – EUR 0.1m	EUR 0.075m – EUR 0.2m
2 (low)	EUR 0.1m – EUR 0.5m	EUR 0.2m – EUR 1.5m
3 (medium)	EUR 0.5m – EUR 5m	EUR 1.5m – EUR 10m
4 (high)	EUR 5m – EUR 50m	EUR 10m – EUR 75m
5 (very high)	> EUR 50m	> EUR 75m

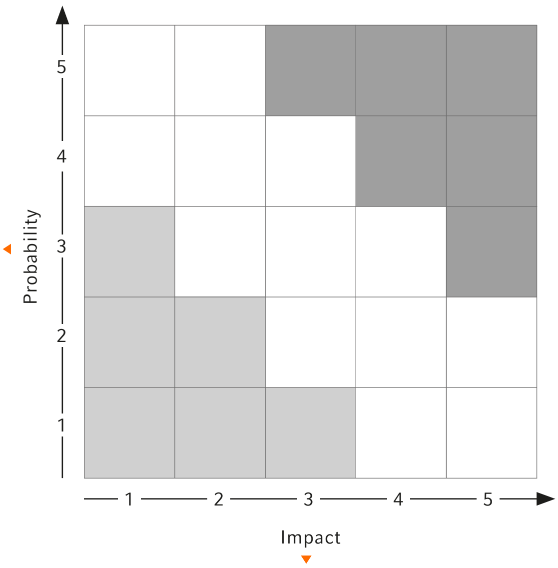
In addition, risks that exceed EUR 250m are denoted specifically as risks that could jeopardize the company's ability to continue as a going concern.

All risks identified are quantified based on their probability of occurrence and their potential financial impact and entered in the risk catalog (risk matrix). The probability assessment is based on a time horizon of one year after the assessment date. The impact assessment is conducted either on a quantitative scale (preferred) or a qualitative scale (alternatively if risks cannot be quantified or qualitative outweigh quantitative aspects). Quantitative classes are based on a scale relating to the potential impact on profit (EBIT). Qualitative classes are based on criteria considering the impact on the company's reputation or the effect of criminal prosecution (with special focus on compliance risks). The risks are presented net, meaning the risk-minimizing measures implemented are considered in the scoring of risks.

Risks are positioned in the risk matrix according to the following grid:

27 PROBABILITY OF OCCURENCE (WITHIN THE FOLLOWING YEAR)

CLASS	PROBABILITY	AVERAGE
1	very low (0%–5%)	2.5%
2	low (5%–25%)	15%
3	medium (25%–50%)	37.5%
4	high (50%–75%)	62.5%
5	very high (75%–100%)	87.5%



28 QUALTITATIVE IMPACT (ALTERNATIVE)

CLASS	REPUTATIONAL EFFECT	CRIMINAL PROSECUTION
1	very low	very low
2	low	low
3	medium	medium
4	high	high
5	very high	very high

29 QUANTITATIVE IMPACT (PREFERRED)

CLASS	LOSS AMOUNT 2015
1	EUR 0.075m – EUR 0.2m
2	EUR 0.2m – EUR 1.5m
3	EUR 1.5m – EUR 10m
4	EUR 10m – EUR 75m
5	> EUR 75m

04.4.4 FORMER REPORTING STRUCTURE

We reassessed the aggregated risk clusters from 2014 according to the new methodology to ensure comparability between the risk and opportunity report for fiscal year 2014 and the newly introduced reporting structure. Changes are presented in the following summary:

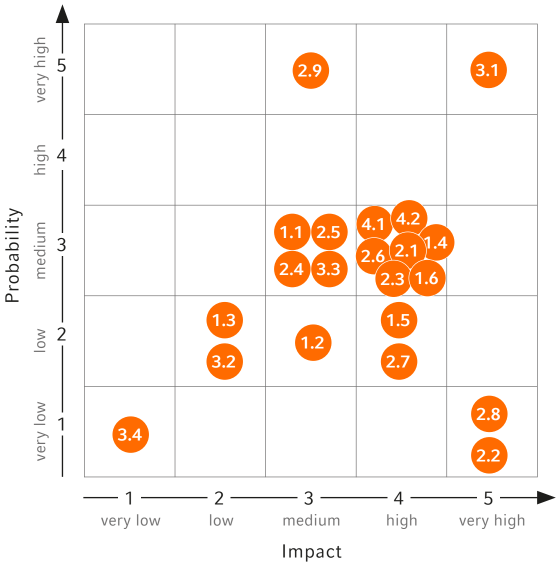
30 RISK OVERVIEW

		PROBABILITY		IMPACT		OVERALL CHANGE
1	**Economic and strategic risks**					
1.1	Overall economic risks	medium	Decrease	medium	Increase	Insignificant change
1.2	Competitive risks	low	No change	medium	No change	No change
1.3	Demand risks	low	No change	low	No change	No change
1.4	Risks arising from technological progress and innovation	medium	No change	high	No change	No change
1.5	Marketing risks	low	No change	high	Decrease	Decrease
1.6	Reputation risks	medium	Decrease	high	Increase	Insignificant change
2	**Operational risks**					
2.1	Logistics risks	medium	Decrease	high	No change	Decrease
2.2	Risks arising from the setup of own fulfillment sites	very low	Decrease	very high	No change	Decrease
2.3	Inventory risks	medium	Decrease	high	Decrease	Decrease
2.4	Supplier and partner risks	medium	No change	medium	No change	No change
2.5	IT risks	medium	Decrease	high	Decrease	Decrease
2.6	Personnel risks	medium	Decrease	high	Decrease	Decrease
2.7	Information risks	low	Decrease	high	Increase	Insignificant change
2.8	Risks from emergencies and crises (Infrastructure)	very low	No change	very high	No change	No change
2.9	Risks from emergencies and crises (Technology & IT)	very high	Increase	medium	No change	Increase
3	**Financial risks**					
3.1	Default risks	very high	No change	very high	Increase	Increase
3.2	Financing and liquidity risks	low	Decrease	low	No change	Decrease
3.3	Currency risks	medium	Increase	medium	No change	Increase
4	**Legal and regulatory risks**					
4.1	Legal risks	medium	Decrease	high	No change	Decrease
4.2	Product quality risks	medium	Decrease	high	Increase	Insignificant change

Decrease
Increase
No change
Insignificant change

Graphic overview:

14 RISK OVERVIEW – NET RISK MATRIX



After considering the adjustments to the impact classes and the higher level of revenue, there were slight adjustments to the risk assessment in some cases. Furthermore, improved countermeasures led to lower risk assessment in several cases.

All individual risks that were considered previously in the risk clusters above are described in the following section if they were classified as significant. This detailed risk-by-risk description replaces the former cluster-based breakdown.

04.4.5 OVERVIEW OF CURRENT RISKS AND OPPORTUNITIES

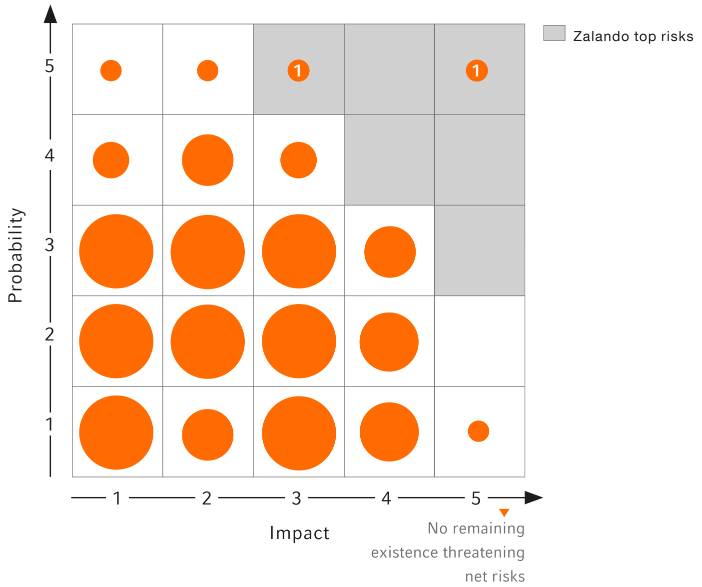
In general, it cannot be ruled out that potential risks which are currently unknown or considered to be insignificant at present may negatively impact business in the future. Despite all countermeasures implemented to manage the identified risks, residual risks for all corporate activities that cannot be completely eliminated by a comprehensive risk management system still remain. Altogether, the risks are to be regarded as customary to online retail business.

There are currently no net risks assessed that would jeopardize the company's ability to continue as a going concern. Nevertheless, we deem two risks as significant (top risks described below).

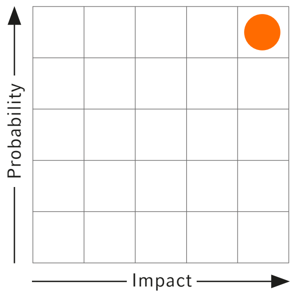
RISKS WITH HIGH PROBABILITY AND HIGH IMPACT (TOP RISKS)

Based on the net risk view, risks are defined as top risks if they have a high probability and high impact (denoted with a grey-shaded area in the matrix).

15 NUMBER OF NET RISKS



RISKS FROM BAD DEBTS / EXTERNAL FRAUD



Probability: very high
Impact: very high

The default risk is the risk that customers' do not fulfill their contractual obligations and receivables remain unpaid. This can be the result of customers' payment habits or financial situation, or can be the result of fraud. An increase in fraudulent activities may also lead to an increase in bad debts.

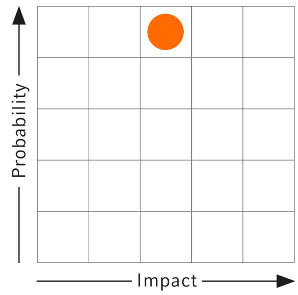
Overall, the default risk is distributed differently across the various countries, regions and cities. The probability of occurrence varies for the different payment methods that Zalando offers its customers. To detect and prevent payment default and fraud early on, Zalando has a comprehensive payment and fraud management system in place. In addition, write-downs for trade receivables are recognized to a sufficient extent.

The risk remains significant as Zalando is not able to prevent attempts at fraud and new fraud patterns with serious damage may arise. We closely monitor future trends and continuously improve the payment processes.

RISKS WITH FOCUS ON TECHNOLOGY

As an e-commerce company, Zalando is extremely dependent on the functionality and stability of various online sites. Disruptions or outages would lead directly to revenue losses. The risk of unstable IT systems also applies to merchandise management and logistics. Interrupted work-flows or inconsistent updates of stocks may also result in considerable short-term revenue losses.

We use configuration management, application management and automated tests as essential countermeasures of managing the risk. Furthermore, Zalando uses monitoring systems and establishes and documents incident management processes. A risk management system has been implemented for applications and systems. Outsourced services (e.g., data center) are integrated in the monitoring processes and adequate service level agreements are concluded.



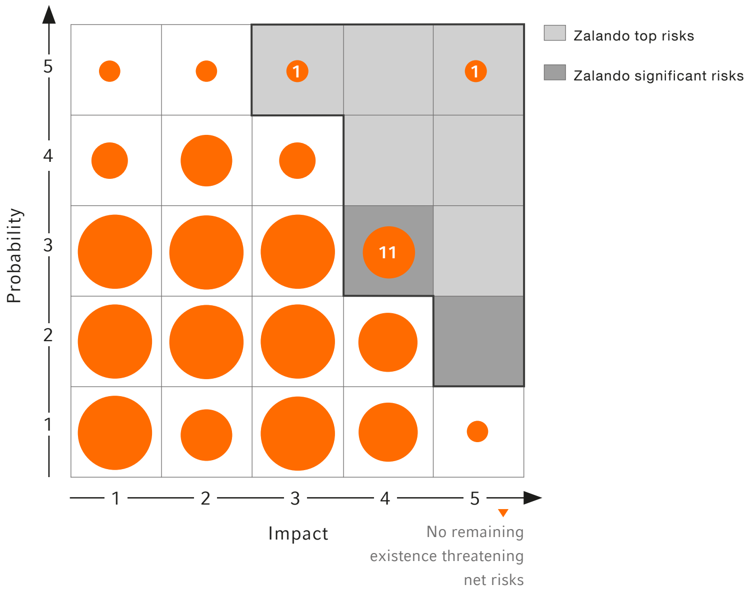
Probability: very high
Impact: medium

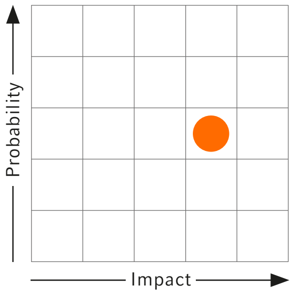
EXPANDED RISK AND OPPORTUNITY AREA

Risks and opportunities in the dark grey margin as shown in the matrix are considered to be significant risks due to the combination of certain level of probability and a certain level of impact.

These significant risks pertain to:

16 NUMBER OF NET RISKS



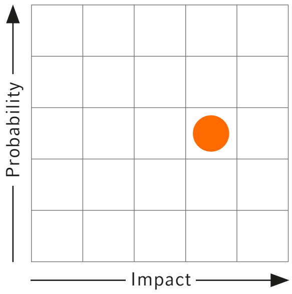


Probability: medium
Impact: high

RISKS FROM INEFFICIENT INTERNAL PROCESSES AT FULFILLMENT CENTERS

Risks from inefficient internal fulfillment processes in fulfillment centers can lead to excessive fulfillment costs and delivery delays, which, in turn, may adversely affect customer satisfaction. The major challenge is the coordination of the interaction between technology and people.

Optimization projects and project teams have been set up to improve fulfillment processes. The established Process Improvement team and Innovation team have made adjustments in operational workflows, the site organization, as well as utilized software. As an additional measure, the Process Improvement team coordinates the standardized continuous improvement process. Furthermore, we conduct quality process audits three times a year in order to review the processes and the respective measures implemented.



Probability: medium
Impact: high

RISKS FROM INACCURATE PERSONNEL AND CAPACITY FORECASTS FOR FULFILLMENT CENTERS

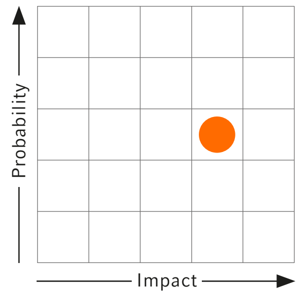
Risks may result from inaccurate personnel and capacity planning for fulfillment centers as a result of underlying inaccurate planning or forecasts of sales/incorrect budgets. Resulting capacity overloads may lead to cost intensive measures to resolve backlogs, and a decrease in customer satisfaction should this result in delivery delays. Excess capacity may result in alternative costs that could have been avoided.

Zalando has implemented numerous measures to optimize capacity utilization for single warehouse locations as well as across warehouses including. These comprised among other things:

- Continuous planning
- Shifting resources from inbound to outbound processes and vice versa at warehouses
- Shift capacity utilization between warehouse locations
- Redirecting returned articles to other warehouse locations or service providers
- Utilizing flexibility options of employed personnel (e.g., reduce/allow overtime)

RISK OF STRIKE

Risks may emerge from strikes by workers in the operational functions. The risk depends on various internal and external factors, including the satisfaction of employees as well as union activities regarding the industry as a whole or Zalando in particular. Strikes can lead to costly backlogs and delays, as well as to increased fulfillment costs.



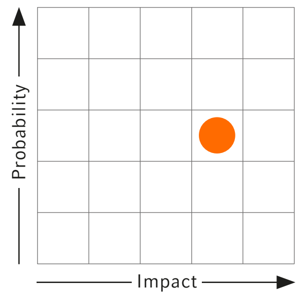
Probability: medium
Impact: high

Zalando invests in good relationships with its employees and constructive exchanges to improve the work environment and conditions, including:

- Supporting the foundation of work councils at fulfillment centers (currently established in Brieselang and Erfurt and a joint work council for both warehouses) and continuous communication to improve the working atmosphere
- Intensified internal communication in fulfillment
- Regularly audited social standards to ensure the quality of working conditions

RISKS FROM INACCURATE FORECASTS AND PLANNING WITHIN CATEGORY MANAGEMENT

Risks may arise due to insufficient coordination of the higher-level sales and sourcing planning. A lack of coordination and changes of plans may lead to planning errors. Furthermore, there is a risk that forecasts may be incorrect, meaning that predetermined budgets were calculated inaccurately. This, in turn, could lead to unfavorable sourcing activities.

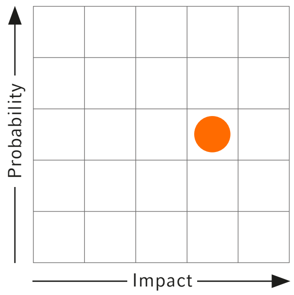


Probability: medium
Impact: high

In Category Management Zalando has set up a planning process on a rolling basis, which is carried out twice a year with regular updates during the seasons. The process is supported by analyses from category controlling and the data intelligence team. Basic planning is prepared by the teams responsible for country clusters in cooperation with the individual Category Management teams and brought into line with the higher level category management planning.

The product-specific sales risk is countered through continuous sales analysis and budget planning. Zalando uses a detailed indicator system to identify negative discrepancies at an early stage and to implement the appropriate measures in order to monitor and manage the sales and stock levels. Additional flexibility can be achieved through follow-up orders. In addition, Zalando recognizes write-downs on inventories to a sufficient extent. The inventory risk is an inherent risk of our business model and manifests itself along the entire value chain.

RISKS FROM HAZARDOUS MATERIAL / CONDITIONS IN PRODUCTION WITH REGARD TO PRIVATE LABELS

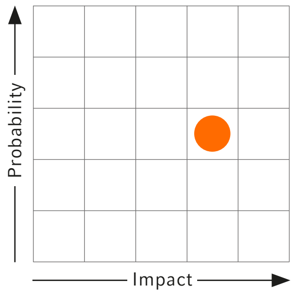


Probability: medium
Impact: high

The use of, e.g., banned chemicals in the production process or ineffective fire prevention measures at production locations may lead to a risk of personal injury of workers in factories and may negatively impact Zalando's reputation in such risks eventuate. In addition, this is likely to result in loss of revenue.

To be able to choose partners which meet our safety standards, the focus of the implemented countermeasures lies on creating transparency and adhering to our requirements (e.g., Factory Compliance Manual, General Instructions, Code of Conduct). Measures, such as focused on-site audits and Zalando's Factory Improvement Program support this objective.

RISKS DUE TO SAFETY DEFICIENCIES ON SOLD PRODUCTS WITH REGARD TO PRIVATE LABELS



Probability: medium
Impact: high

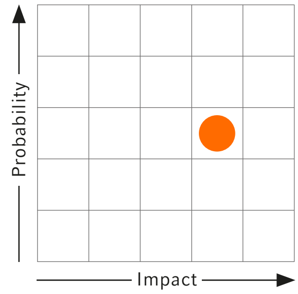
The delivery of goods in perfect condition is critical to the success of the company. Product recalls, product liability cases and social responsibility violations can adversely affect the company's reputation.

Zalando manages the risk of potential quality problems through continuous inspections, careful selection of our partners, suppliers and manufacturers, as well as by cultivating long-term relationships. In addition, the quality management process for Zalando's private labels was revised in cooperation with independent testing institutes. A comprehensive testing plan has been established. The tests are primarily conducted directly at the manufacturer's site immediately after production. Chemical tests are conducted at specialized testing laboratories.

RISKS OF MISSED OPPORTUNITIES FROM DEFICIENT BRANDING OF PRIVATE LABELS

Insufficient branding and a non-uniform brand image may lead to losses as customers might no longer "identify" with one single brand. The revenue increase expected from a strong brand image and the associated cost-savings from higher production volumes are the key factors in the assessment of this opportunity.

The respective brand teams allocate appropriate items selected from the entire product range to each brand to create a unique brand image. To enhance the marketing activities for the various brands appropriately, targeted customer analyses were performed to support the associated decision-making. Moreover, there is daily communication between the marketing teams and content departments regarding core brands on social media.

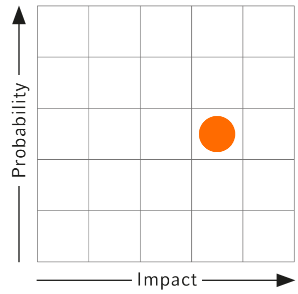


Probability: medium
Impact: high

RISKS FROM A SUDDEN LACK OF A "STATE OF THE ART" SHOP AND SERVICE

In order to meet the rising and changing demands on contemporary products and service and to realize market opportunities, we must constantly make rapid, innovative and appropriate adjustments. Neglecting the necessary measures or inadequate implemention of such measures can lead to customer migration away from the brands, followed by significant revenue losses.

A significant overarching countermeasure is the establishment of the Onsite Experience team. The team coordinates the relevant adjustments with stakeholders and ensures the continuous development of the shop.

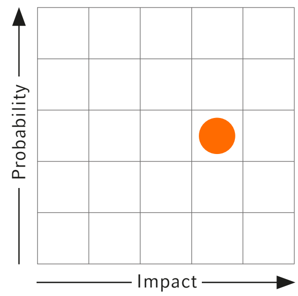


Probability: medium
Impact: high

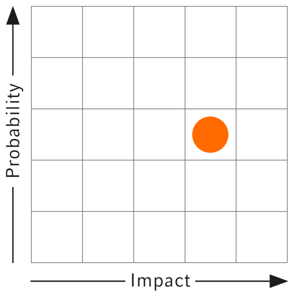
RISKS FROM SCARCITY OF RESOURCES AT FULFILLMENT CENTERS

Business growth risks may stem from insufficient human resources for the further development of existing fulfillment centers.

We consider the appropriate availability of human resources in the planning phase of fulfillment centers. Additionally, strategic human resource measures are performed (referred to collectively as the employer branding fulfillment strategy).



Probability: medium
Impact: high



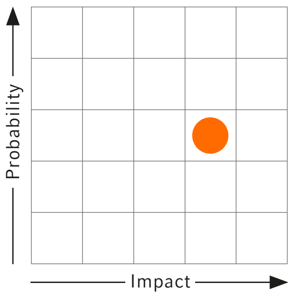
Probability: medium
Impact: high

RISKS FROM ZALANDO'S LACK OF INNOVATION CAPABILITIES OR MISSED PRODUCT INNOVATIONS

The company's ability to implement innovations and future market trends is essential for sustainable success. It is also essential to recognize and analyze trends and innovation opportunities, which, if missed, might lead to a loss of market share or reduced competitiveness.

To counteract this risk, we have implemented the following significant measures:

- Defined a long-term strategy to support product innovations (e.g., Zalando's platform strategy)
- Realized measures to ensure innovativeness (e.g., implement an innovative concept of agile software development, optimization of Zalando's system architecture)
- Prioritized projects concerning customer benefit and use information from market and customer research



Probability: medium
Impact: high

RISKS FROM A LACK OF MARKET KNOWLEDGE, PURCHASING AND NEGOTIATION CAPABILITIES WITHIN INDIRECT PROCUREMENT

Inadequate management of demand/specifications (for products/services to be purchased), inadequate market analysis or lack of market knowledge (e.g., local sourcing vs. global sourcing) or inadequate skills on the part of the purchasing officers may result in poor decisions in the selection of suppliers, goods and services. This may cause financial and reputational damage.

The result of the risk evaluation is mainly driven by the fact that high cost savings (=opportunity) from expanding the Indirect Procurement function are expected.

The key countermeasures in this regard is strategic sourcing by specialized lead buyers in the respective departments or by the lead buyer and sourcing manager of the Indirect Procurement team in line with defined processes.

FINANCIAL RISKS

Furthermore, Zalando is required to describe its financial risks pursuant to section 289 (2) No. 1b HGB.

In the course of its ordinary activities, Zalando is exposed to credit risks, liquidity risks and market risks (currency and interest rate risks). The aim of financial risk management is to limit the risks resulting from operating activities through the use of selected derivative and non-derivative hedging instruments. Derivative financial instruments are used solely for the purpose of risk management.

DEFAULT RISKS

The default risk mainly originates from trade receivables (this is one of top risks) and, to a lesser extent in terms of probability of occurrence,from claims originating from financial contracts with other parties, e.g., short-term deposits and derivative financial instruments.

The company only concludes derivative financial instruments and invests surplus cash with counterparties with excellent credit ratings. Furthermore, the company sets maximum investment amounts and concludes global netting agreements in order to minimize the default risk.

FINANCING AND LIQUIDITY RISKS

Zalando counters the risk of not raising sufficient funds with a diversified cash management. Sufficient cash as well as free credit lines ensure that the group is in a position to meet its payment obligations at all times and has access to sufficient cash and cash equivalents for investments. In addition, the company utilizes instruments such as reverse-factoring agreements to manage liquidity.

CURRENCY RISKS

As a rule, there is a currency risk for revenue generated in foreign currency and for sourcing transactions carried out in foreign currency. This is countered by natural and contractual hedges. Zalando uses forward exchange contracts as hedging instruments to hedge foreign currency risks resulting from contractual merchandise sourcing transactions that have yet to be fulfilled and to hedge from forecast revenue.

These are recognized as cash flow hedges if the conditions of hedge accounting are fulfilled. Once the hedged item has been realized as a cash flow hedge, the forward exchange contracts are used as fair value hedges to compensate for market value fluctuations of the outstanding trade receivables and trade payables and similar liabilities denominated in foreign currency. Forward exchange contracts are concluded with a term not exceeding 12 months.

Derivative financial instruments are concluded and processed in accordance with internal guidelines that set out binding rules for the scope of action, responsibilities, reporting and controls.

The foreign currency sensitivity of the group is calculated by aggregating all foreign currency items that are not presented in the functional currency of the respective entity. These items are compared with the aggregated hedging transactions. The market values of the hedged items and hedging transactions included are measured at current exchange rates and sensitivity rates. The difference between these measurements represents the effects on earnings and equity.

The effects are analyzed on a regular basis. For example, if the euro had appreciated by 5% against the foreign currencies as of December 31, 2015, earnings before taxes would have been EUR 5.4m lower (prior year: EUR 4.7m). If the euro had depreciated 5% compared with the exchange rate as of December 31, 2015, earnings before taxes would have been EUR 6.0m higher (prior year: EUR 5.9m). The reserve for derivatives in group equity would have been EUR 11.8m higher (prior year: EUR 5.0m higher) if the euro had appreciated 5% compared with the exchange rate as of December 31, 2015. This reserve would have been EUR 13.1m lower (prior year: EUR 5.3m lower) if the euro had depreciated 5%.

Although the effects from the change in exchange rates offset each other to some extent, e.g., the cost for goods invoiced in foreign currency increase due to the weak euro, while the translated income from the sale increases on the other side, Zalando regards this risk as medium due to the potential financial impact that is not hedged in full despite a low probability of occurrence.

MARKET OPPORTUNITIES AND GENERAL OPPORTUNITIES

MACROECONOMIC DEVELOPMENT

Economic projections about the 2016 development in the euro zone assume growth above 1% compared to prior-year figures. Private consumption is expected to be one of the main drivers of the growth during the forecast period. Experts believe that the disposable income in real terms will increase at a similarly steady pace, due to only slight increases in inflation and positive signals from job markets across important European economies.[13]

An upward trend is also forecast for Germany. Similar to the Rest of Europe, strong employment levels and a noticeable increase in wages and salaries coupled with low inflation should drive private consumption that will translate into further growth.[14] These developments give Zalando the opportunity to capitalize on a potentially favorable consumer climate arising from the growing economy and further reinforce its market position and increase revenue.

GROWING FASHION MARKET IN EUROPE

The fashion market in Europe (excluding Russia) is large, with consumer expenditure of around EUR 417bn in 2015. Online fashion sales made up roughly EUR 46bn of this total. This represents a relative share of approximately 11% of all fashion retail.[15] The overall market for fashion in Europe (excluding Russia) remained virtually unchanged between 2010 and 2015, while online fashion sales grew at a considerably faster rate with average annual growth (CAGR)[16] of approx. 16% between 2010 and 2015.[17] This trend is forecast to continue, as the percentage of people in the overall population who are already familiar with digital technology at a young age will continue to rise.

Europe is a highly attractive fashion market with concentrated wealth and a high population density. These factors work to the advantage of online fashion sales. Thanks to its penetration of European markets as well as the infrastructure and the brand awareness achieved in the meantime, Zalando is well positioned to benefit from these favorable market conditions.

The online retail market in Europe (excluding Russia) reported revenue totaling EUR 244bn in 2015, with a CAGR of 16% since 2010. While the online share of retail trade in the United States came to 9.3% in 2015, the online share of retail trade in Zalando's target market, Europe (excluding Russia), rose from 3.8% in 2010 to 7.2% in 2015.

The consistent focus of the business model on e-commerce combined with a product range tailored to market needs and a consistent customer focus offers Zalando an opportunity to further increase its revenue and market share. Using targeted marketing activities, Zalando seeks to increase its brand awareness, win new customers and retain existing ones for the long term. The strategic realignment as a platform offers Zalando new, more extensive growth opportunities. Moreover, Zalando can continue to exploit the high online market potential for European fashion through its presence, which now extends to 15 European countries, and the constant expansion of its own product range and other brands.[18]

13) DIW (Deutsches Institut für Wirtschaftsforschung e.V.), DIW Economic Bulletin 50–52.2015, p. 655 f.)
14) Ifw Kiel: Kieler Konjunkturberichte No 14 (2015|Q4), Deutsche Konjunktur im Winter 2015 (German only)
15) Euromonitor International
16) CAGR stands for "Compounded Annual Growth Rate" and refers to the year-on-year growth rate over a specific period of time The compounded annual growth rate is calculated by taking the nth root of the total percentage growth rate, where n is the number of years in the period under review
17) Euromonitor International
18) Euromonitor International

MOBILE COMMERCE

Mobile devices have made a considerable contribution to the strong growth in online retail trade. This also applies to fashion sales, as customers have access to fashion products at any time and from virtually anywhere. Retail sales generated by mobile devices have grown strongly in Western Europe, from roughly EUR 3.8bn in 2011 to almost EUR 47bn in 2015. It is anticipated that this revenue will grow at an annual average growth rate of 18% to reach EUR 106bn in 2020.[19]

Mobile devices provide Zalando additional ways of connecting with customers. Zalando can now offer its customers in all international markets a mobile shopping experience on any of the main operating systems. Zalando apps are not a simple adaption of the Fashion Store but have been designed and structured from scratch. Most users access Zalando products and services several times a day via mobile devices. This implies that apps have become increasingly important. This offers an opportunity for Zalando to expand its revenue potential via mobile devices. To fully exploit this opportunity, Zalando is evolving into a Mobile First company in all respects.

SCALABLE LOGISTICS

The scalable logistics infrastructure is currently composed of three fulfillment centers in Brieselang, Erfurt and Mönchengladbach, which are strategically positioned within Germany to efficiently supply customers throughout Europe. A fourth fulfillment center in Lahr, southern Germany is currently under construction. Here Zalando has once again undertaken all the development work for the fulfillment center itself. This location in southern Germany is intended to follow the rising demand of customers and increase Zalando's capacity. Not only customers in southern Germany will profit from the new location in Lahr but also customers in France and Switzerland. In addition, another fulfillment center operated by a service provider was opened in Italy in December, from which customers in Italy can be served more rapidly. According to Zalando's estimates, approximately 65% of the European population and around 85% of Zalando's active customers live within a radius of 750 km (or a nine-hour truck drive) from the existing three fulfillment centers. With floor space of 290,000 m^2, the current fulfillment centers make it possible to process higher revenue volumes than in fiscal year 2014.

INNOVATIVE LOGISTICS

Zalando successfully organizes its logistics solutions itself. The underlying concept involves identifying any ways of making the shopping experience for customers even easier and more comfortable. Zalando's logistics concept therefore constitutes a unique selling proposition.

The continuous improvements to the logistics infrastructure and its processes are directly related to greater customer satisfaction and provide a means by which to achieve a competitive edge.

This also opens up new business fields. There are plans within the framework of the platform strategy to also offer Zalando's logistics services to third parties. This requires centralized coordination of the highly complex fashion network with the IT network and development of a toolbox that provides benefits to all partners of the platform and ultimately the customers as well.

19) Euromonitor International

SMART DATA

Zalando collects data and uses its internally developed analytical tools to optimize every aspect of the business. Data analyses are used, for example, to forecast demand, set country-specific pricing or to customize the product range. This approach provides insights that can yield significant strategic benefits. Furthermore, with the aid of the data gathered, Zalando develops applications that enable all business units to constantly optimize their business processes.

The extensive reach of Zalando shops and mobile applications can be used by Zalando to win in-depth knowledge of user behavior. This knowledge enables the labels to efficiently place the relevant advertising offers to their target groups. Zalando can provide its brand partners with tailored advertising with which they can address their target markets not only in the Fashion Store but also on relevant third-party websites. By building up this expertise, Zalando can realize additional revenue potential and expand its field of business. After taking over Metrigo GmbH in 2015, a specialist for display marketing banners and real-time bidding, as well as nugg.ad GmbH at the beginning of 2016, a specialist for targeted marketing, Zalando has already invested in this field to further optimize its marketing capabilities.

INNOVATIVE TECHNOLOGY

Technology is a core competence at Zalando. It is the foundation on which all platform products are based and underlies almost all business processes. Technologies are being constantly refined and offer a lot of room for innovation. Zalando puts a constant focus on the needs of its customers and partners.

For example, in cooperation with its brand partners, Zalando opened over 1,000 individual brand shops in 2015 at which visitors can shop as if in an online flagship store. The brands interact directly with the customers, manage their picture and text content by themselves and obtain detailed insight into the browsing and shopping behavior of their customers. The Fashion Store was extended to incorporate practical features such as Shop the Look or Trend Shop, which enable customers to put together outfits that harmonize with each other instead of ordering individual items. The Zalando Lounge app offers additional functions, such as calendar entries or push messaging, to inform customers of the start of any campaigns. By acquiring a stake in Anatwine in 2015, Zalando has won a strong partner in technological solutions to connect marketplace partners to the platform more simply and effectively.

The development of technological expertise and innovations facilitates not only the optimization of business processes, but also the ability to discover and exploit additional synergies and sales potential. Zalando intends to further consolidate its position as a technologically driven company and innovator that constantly addresses the needs of its brand partners and the available avenues to inspire buyers of fashion again and again.

LOCAL ALIGNMENT

Adapting Zalando's product range to meet local demand is a key factor in offering Zalando customers a stimulating and convenient shopping experience. This is critical for the group to succeed in the heterogeneous European market with its diverse regional tastes.

Zalando has developed various online offerings that are tailored to the local demands of customers. This also includes country-specific product ranges, an assortment in the online catalog that is tailored to local demands, visual marketing that is in line with local conditions, local payment methods and fulfilment options. This country-specific alignment and a stronger adaptation to local customer needs sets Zalando apart from other companies. At the same time, the group uses a central platform and infrastructure for purchasing merchandise, its fulfillment and technology for all of Europe. This approach offers opportunities to benefit from economies of scale, which in turn distinguishes Zalando from smaller, locally operating competitors.

FASHION EXPERTISE

Consumers tend to move towards those shops offering the best selection and the relevant trends. Meeting this challenge requires bundled fashion expertise. To prevail over the competition, Zalando has systematically developed these skills in a number of different ways.

In this context, Zalando introduced the Zalon consulting service in 2015 which offers customers fashion advice and inspiration directly from selected stylists when making their purchases.

With its internally designed labels, Zalando offers products whose life cycle is managed under one umbrella from the design phase right through to sale. Zalando has succeeded in creating popular brands that now have a loyal customer base.

To remain at the cutting edge, Zalando's trend scouts intensively search the markets and fashion centers to predict and even set the trends for the coming season.

AN ATTRACTIVE PARTNER

Fashion brands value Zalando as a strategic partner because the group offers them direct access to the large European fashion market, a high number of site visitors, an in-depth insight into customer buying habits and a clear focus on fashion. The platform lets them present their brands in an appealing way. The size and rapid growth of business have resulted in a self-reinforcing network effect: the frequency of visits to Zalando's online platform is extremely attractive for its brand partners, giving Zalando access to still more brands and greater choice in selecting its products. The wide selection of brands and products in turn helps the company reach and win over new customers. This, in turn, increases the number of visitors on the group's websites.

With more than 150,000 products from more than 1,500 brands, Zalando offers its customers a wide choice of appealing fashion items. Sourcing teams work continuously with the brand partners to select attractive fashion products. As a result, around 1,000 new products are added to the online assortment on a daily basis, which keeps the selection constantly up-to-date and gives customers an incentive to discover new trends. The strong partnerships with fashion brands make it possible to not only offer a choice of major international brands but also brands tailored to local preferences. Zalando can respond quickly to new trends thanks to the fast fashion brands in its assortment. Fast fashion products also offer the advantage of shorter lead times and greater flexibility. Finally, Zalando has developed its own private labels that expand and enhance the assortment across all price categories.

PERSONNEL OPPORTUNITIES

Zalando's successful growth is based on the competencies and motivation of its employees. Due to the considerable growth of its core business, the penetration of new business areas and the rapid international expansion, Zalando constantly needs to strengthen its winning team. Recruiting therefore plays a key role in human resources work. Recruiting highly skilled employees can help boost efficiency and foster innovation and creativity, thus increasing revenue and profitability.

04.5 OUTLOOK

04.5.1 FUTURE OVERALL ECONOMIC AND INDUSTRY-SPECIFIC SITUATION

European online retail is expected to see continued strong growth. For example, the European retail industry is expected to achieve year-on-year growth of just above 1% in 2016, while online retail is expected to grow over 10%. The picture in Germany is similar. Retail is forecast to grow roughly 1% in 2016, whereas internet trade is expected to increase by over 11%.[20]

The total fashion industry in Europe and Germany is expected to have another rather weak year in 2016. Fashion sales in Europe are expected to stagnate (growth of 0.3% to the prior year), while fashion sales in Germany are even expected to decline slightly (decline of 0.2%).[21] In contrast, online fashion sales are expected to grow significantly faster in Europe and in Germany. Online fashion sales in Europe are expected to increase by approximately 8% in 2016, while predictions for Germany assume that the market will grow by almost 9% compared with the previous year.[22]

With the development of e-commerce models and the increasing openness of consumers for online shopping, Zalando expects the online fashion share to continue to grow strongly in 2016.

Due to its focus on the European market, its strong brand awareness, large customer base, strong brand relationships and its leading technology and fulfillment infrastructure, Zalando is convinced that it is well positioned to benefit from these favorable market conditions for online sales. The high emotional factor that both brands and customers associate with fashion also provides independent and purely fashion e-commerce retailers, like Zalando, with a considerable edge compared to non-specialized e-commerce retailers.

20) Euromonitor International, retail segment including grocery retailers
21) Euromonitor International
22) Euromonitor International, forecast of online fashion includes apparel, footwear, personal accessories, eyewear and writing instruments

04.5.2 FUTURE DEVELOPMENT OF THE GROUP

Zalando aims to continue its course of profitable growth in the future and continue to gain market share. With this goal, management has defined four focus areas for 2016 that will provide the basis for long-term success. First, we will continue to give highest priority to customer satisfaction, with a special focus on mobile devices, second, to enhance the attractiveness of Zalando as an employer to continue to attract the best talent, third, to develop digital strategies for Zalando's fashion partners and invite them to play a stronger role on the Zalando platform, and fourth, to strive for commercial and operational excellence. These goals will ensure that the company can continue to grow by further expanding its market share and strengthen its competitive position. Management's financial strategy aims to increase revenue while retaining a solid level of profitability.

Against a background of continued online market growth, management forecasts revenue growth at the upper end of its multi-year growth corridor of 20–25% in fiscal year 2016. Revenue in fiscal year 2016 is expected to grow primarily as a result of a strong increase in orders. We do not anticipate any major year-on-year fluctuations in the average basket size.

Management expects to achieve again a solid level of profitability with an adjusted EBIT margin of 3.0% to 4.5% in fiscal year 2016 (unadjusted EBIT margin of 2.6% to 4.1%), despite continuing investment into the customer proposition and platform initiatives.

04.5.3 OVERALL ASSESSMENT BY THE MANAGEMENT BOARD OF ZALANDO SE

Overall, the Management Board views the developments in fiscal year 2015 and the economic position of Zalando as very positive. The group returned a profit once again at group level in the fiscal year. The financing of the group is very sound.

In its first year as a publicly-listed company, Zalando has increased its growth rate significantly, made important long-term investments and achieved a solid level of profitability. The company has grown considerably in all markets and has improved its market position further. In 2016, Zalando expects to be able to continue its good business performance seen in the past fiscal year.

The comments on future development in this management report are made by the Management Board to the best of their knowledge and belief based on estimates made at the time these financial statements were prepared. The statements are by nature subject to a series of risks and uncertainties. The actual results may therefore deviate from these forecasts should one of these or other uncertainties arise or the assumptions on which the statements are made prove to be inaccurate.

04.6 SUPPLEMENTARY MANAGEMENT REPORT TO THE SEPARATE FINANCIAL STATEMENTS OF ZALANDO SE

The management report of ZALANDO SE as a separate entity and the group management report have been combined. The following notes are based on the annual financial statements of ZALANDO SE, which were prepared in accordance with the provisions of the German Commercial Code and the AktG ["Aktiengesetz": German Stock Corporation Act] in conjunction with Art. 61 EU CR 2157/2001.

04.6.1 BUSINESS ACTIVITY

ZALANDO SE is the parent company of the Zalando group. Its registered office is the corporate headquarters in Berlin. Its operating activities mainly include the development, sourcing, marketing and retail sale of various types of goods, in particular clothing and shoes. Other responsibilities include management of the online shop, HR management, IT, finance management and risk management.

As the parent company of the group, ZALANDO SE is represented by its Management Board, which sets the direction of the group and defines the corporate strategy.

The financial statements of ZALANDO SE are prepared in accordance with the German Commercial Code. The consolidated financial statements are prepared in accordance with International Financial Reporting Standards (IFRSs) as adopted in the EU. This gives rise to differences in recognition and measurement policies. The differences primarily relate to provisions, fixed assets, financial instruments, deferred taxes. In 2014 also transaction costs for procuring capital led to differences between local GAAP and IFRS.

In addition, ZALANDO SE has extensive supply and service relationships with its subsidiaries. The services purchased essentially encompass fulfillment and distribution services, content creation and customer service, as well as procurement services.

The services it provides comprise administrative and IT services.

04.6.2 ECONOMIC SITUATION OF ZALANDO SE

The results of operations of ZALANDO SE presented in the following condensed income statement broken down by the type of expense in the company reveal not only an increase in revenue, but also a significant improvement in the operating result in the reporting period.

31 INCOME STATEMENT OF ZALANDO SE

IN EUR M	JAN 1–DEC 31, 2015	IN % OF SALES	JAN 1–DEC 31, 2014	IN % OF SALES	CHANGE
Revenue	2,950.8	100.0%	2,205.7	100.0%	0.0pp
Own work capitalized	22.4	0.7%	18.7	0.8%	–0.1pp
Other operating income	80.8	2.7%	94.5	4.3%	–1.5pp
Cost of materials	–1,621.1	–54.9%	–1,240.1	–56.2%	1.3pp
Gross profit	**1,432.9**	**48.5%**	**1,078.8**	**48.9%**	**–0.4pp**
Personnel expenses	–170.4	–5.8%	–137.6	–6.2%	0.5pp
Amortization and depreciation	–22.1	–0.7%	–18.2	–0.8%	0.1pp
Other operating expenses	–1,148.8	–38.9%	–879.4	–39.9%	1.0pp
Earnings before interest and taxes	**91.6**	**3.1%**	**43.6**	**2.0%**	**1.1pp**
Financial result	**–0.6**	**0.0%**	**0.2**	**0.0%**	**0.0pp**
Results from ordinary business activities	**91.0**	**3.1%**	**43.8**	**2.0%**	**1.1pp**
Income taxes	36.2	1.2%	–8.1	–0.4%	1.6pp
Net income for the year	**127.2**	**4.3%**	**35.7**	**1.6%**	**2.7pp**
EBIT-margin	3.1%		2.0%		1.1pp

In the reporting period Zalando increased its revenue by EUR 745.1m to EUR 2,950.8m. The 33.8% increase in revenue is the result of the higher number of orders (33.5%) and an increase in the average basket size (up 1.8%). Zalando continued its positive development in all markets.

In the current fiscal year, the DACH countries generated more than half of total revenue. At the same time, revenue recorded in the other European countries climbed significantly, contributing substantially to the overall growth.

32 REVENUE OF ZALANDO SE BY SEGMENT

IN EUR M	JAN 1–DEC 31, 2015		JAN 1–DEC 31, 2014		CHANGE	
DACH*	1,665.6	56.5%	1,293.6	58.7%	372.0	28.7%
Rest of Europe**	1,285.2	43.5%	912.1	41.3%	373.1	40.9%
Total	**2,950.8**	**100.0%**	**2,205.7**	**100.0%**	**745.1**	**33.8%**

*) As in fiscal 2015, DACH countries include Germany, Austria and Switzerland
**) As in fiscal 2015, the Rest of Europe comprises the Netherlands, France, Italy, the United Kingdom, Poland, Belgium, Sweden, Finland, Denmark, Spain, Norway and Luxembourg

The significant increase of EUR 3.7m in own work capitalized in the reporting year was due to the large number of development projects.

Other operating income mainly results from income from foreign currency translation and costs cross-charged to subsidiaries.

The cost of materials rose by EUR 381.0m to EUR 1,621.1m, in line with the expansion of business. The decrease of 1.3 percentage points in the ratio of the cost of materials to revenue to 54.9% can be primarily attributed to lower price reductions in fiscal year 2015. Overall, the company generated a gross profit of EUR 1,432.9m in fiscal year 2015 (prior year: EUR 1,078.8m).

Personnel expenses rose by EUR 32.8m to EUR 170.4m, in line with the rise in the number of employees. At 5.8%, the ratio of personnel expenses to revenue is comparable to the prior year. As of December 31, 2015, the headcount increased by 861 on the prior year from 2,376 to 3,237 employees.

Other operating expenses primarily include marketing expenses and well as shipping and fulfillment costs. They increased from EUR 879.4m to EUR 1,148.8m in line with the development of business.

Income from profit transfers of EUR 2.3m (prior year: EUR 3.1m) stems mainly from the profits generated by the outlets in Berlin and Frankfurt during the reporting period.

In fiscal year 2015, deferred tax assets of EUR 46.3m were recognized. In total, income taxes of EUR 36.2m was reported.

The net income for the year of EUR 127.2m (prior year: EUR 35.7m) can mainly be ascribed to the higher operating result as well as the capitalization of deferred tax assets.

NET ASSETS AND FINANCIAL POSITION

The net assets of ZALANDO SE are shown in the following condensed statement of financial position.

33 ASSETS OF ZALANDO SE

IN EUR M	DEC 31, 2015		DEC 31, 2014		CHANGE
Non-current assets	205.5	9.8%	153.8	8.6%	51.7
Current assets	1,840.0	87.7%	1,624.9	91.1%	215.1
Prepaid expenses	6.9	0.3%	5.3	0.3%	1.6
Deferred tax assets	46.3	2.2%	0.0	0.0%	46.3
Total assets	**2,098.7**	**100.0%**	**1,784.0**	**100.0%**	**314.7**

34 EQUITY AND LIABILITIES OF ZALANDO SE

IN EUR M	DEC 31, 2015		DEC 31, 2014		CHANGE
Equity	1,290.8	61.5%	1,143.3	64.1%	147.5
Government grants	1.3	0.1%	3.2	0.2%	–1.9
Provisions	203.5	9.7%	146.7	8.2%	56.8
Liabilities	602.2	28.7%	488.7	27.4%	113.5
Deferred income	0.9	0.0%	0.1	0.0%	0.8
Deferred tax liabilities	0.0	0.0%	2.0	0.1%	–2.0
Total equity and liabilities	**2,098.7**	**100.0%**	**1,784.0**	**100.0%**	**314.7**

The total assets of ZALANDO SE rose by around 17.6% as a result of the further increase in business volume. The assets of the company primarily consist of current assets, specifically inventories and cash and cash equivalents. Equity and liabilities exclusively comprise equity and current liabilities and provisions.

In fiscal year 2015, capital expenditures focused on intangible assets (EUR 28.0m) and financial assets (EUR 33.5m). Investing activities were financed exclusively from the Group's own funds.

In fiscal year 2015, inventories solely comprised merchandise used in the core operational business of ZALANDO SE.

As of December 31, 2015, ZALANDO SE's trade receivables were up EUR 20.3m to EUR 204.0m.

The liquidity and the financial development of ZALANDO SE are presented in the following condensed statement of cash flows.

35 CONDENSED STATEMENT OF CASH FLOWS OF ZALANDO SE

IN EUR M	2015	2014
Cash flow from operating activities	**80.8**	**172.8**
Cash flow from investing activities	**–73.7**	**–42.0**
Cash flow from financing activities	**4.7**	**510.1**
Exchange-rate related and other changes in cash and cash equivalents	0.9	0
Change in cash and cash equivalents	11.8	640.9
Cash and cash equivalents at the beginning of the period	1,065.5	424.6
Cash and cash equivalents as of December 31	**1,077.3**	**1,065.5**

In the past fiscal year Zalando generated positive cash flow from operating activities of EUR 80.8m (prior year: EUR 172.8m). In spite of an improvement in the net income of the period (which rose from EUR 35.7m in the prior year to EUR 127.2m in the reporting year), the cash flow from operating activities decreased, largely due to the non-cash recognition of deferred tax assets on unused tax losses. Furthermore cash flow was influenced by lower cash inflow from working capital, cash outflows for VAT liabilities and receivables, as well as lower cash inflows from recognizing reimbursement obligations towards customers.

The cash flow from investing activities in fiscal year 2015 was mainly driven by capital increases in subsidiaries that were used to invest in the fulfillment infrastructure, as well as to further expand the respective business segments of the subsidiaries. In particular, investments were made in the new fulfillment center in Mönchengladbach and in intangible assets (mainly software and licenses) as well as in property, plant and equipment, primarily for furniture and fixtures.

The cash flow from financing activities in the prior year was made up almost exclusively of capital contributions from the IPO in October 2014. Cash and cash equivalents rose by EUR 11.8m on the prior year to EUR 1,077.3m. They consist of cash on hand and bank balances as well as fixed-term deposits at credit institutions and in money market funds due within three months.

The equity ratio stood at 61.5% (prior year: 64.1%).

Provisions and liabilities increased by EUR 170.3m to EUR 805.7m in line with the expansion of business. As of December 31, 2015, this figure mainly pertains to provisions for product return claims, outstanding invoices for fulfillment and marketing expenses and trade payables.

Reverse factoring agreements are in place with various suppliers and with several financial institutions. Under these agreements the factor purchases the respective supplier receivables due from Zalando. Supplier claims against Zalando based on these agreements totaling EUR 170.9m had been transferred to the factor as of December 31, 2015 (prior year: EUR 90.5m) although this amount is still recognized in the balance sheet under trade payables.

04.6.3 RISKS AND OPPORTUNITIES

The business development of ZALANDO SE is subject to largely the same risks and opportunities as the group. ZALANDO SE fully participates in the risks of its subsidiaries. Statements made by the Management Board on the overall assessment of the group's risk situation thus also summarize the risk situation of ZALANDO SE. The description of ZALANDO SE's accounting-related internal control system and risk management system stipulated in section 289 (5) HGB ["Handelsgesetzbuch": German Commercial Code] is provided in the risk and opportunity report of the group.

04.6.4 OUTLOOK

The statements made on market trends and the development of revenue and the results for the group also apply here by virtue of the close ties between ZALANDO SE and the group companies and its weight within the group. The statements also reflect the expectations for the parent company.

Berlin, February 29, 2016

Robert Gentz David Schneider Rubin Ritter

05 RESPONSIBILITY STATEMENT BY THE MANAGEMENT BOARD

We assure to the best of our knowledge and in accordance with the applicable reporting principles that the financial statements give a true and fair view of the assets, financial and earnings position of the company, and that the management report, which is combined with the group management report, includes a fair review of the development and performance of the business and the position of the company, together with a description of the principal opportunities and risks associated with the expected development of the company.

Berlin, 29 February 2016

The management board

Robert Gentz   David Schneider   Rubin Ritter

06 CORPORATE GOVERNANCE REPORT

Corporate governance, as practiced by ZALANDO SE, involves responsible management and control of the company geared towards long-term goals. ZALANDO SE's Management Board and Supervisory Board value good corporate governance very highly and align their approach to the recommendations set out in the German Corporate Governance Code. In the following, the Management Board and Supervisory Board submit the corporate governance report together with the declaration of conformity in accordance with section 289a HGB ["Handelsgesetzbuch": German Commercial Code], as the content of the two is closely linked. In accordance with section 289a HGB, the declaration of conformity forms part of the management report.

06.1.1 DECLARATION OF CONFORMITY [23]

DECLARATION BY THE MANAGEMENT BOARD AND SUPERVISORY BOARD OF ZALANDO SE REGARDING THE RECOMMENDATIONS OF THE "GOVERNMENT COMMISSION ON THE GERMAN CORPORATE GOVERNANCE CODE" PURSUANT TO SECTION 161 AKTG (GERMAN STOCK CORPORATION ACT)

The Management Board and Supervisory Board submitted the following declaration of conformity pursuant to Sec. 161 AktG ["Aktiengesetz": German Stock Corporation Act] in November 2015:

The Management Board and the Supervisory Board of ZALANDO SE declare that ZALANDO SE has, since the publication of the last annual declaration of conformity in December 2014, acted in conformity with the recommendations of the "Government Commission German Corporate Governance Code" (hereinafter the "Code") with the exceptions stated and explained therein and hereafter and will in the future act in conformity with the recommendations of the Code in its version of 5 May 2015 (published by the Federal Ministry of Justice on 12 June 2015 in the official section of the Federal Gazette (Bundesanzeiger)) with the following exceptions:

- **No. 3.8 para. 3:** According to the Code's recommendations, a deductible shall be agreed upon for the members of the Supervisory Board when taking out D&O policy. The Company takes the view that such a deductible is not in itself suitable to increase the performance and sense of responsibility of the Supervisory Board members. Furthermore, it reduces the attractiveness of Supervisory Board positions and thus the Company's opportunities in its competition for qualified Supervisory Board candidates.

- **No. 4.2.1 sentence 1:** According to the Code's recommendations, the Management Board shall have a chairman or spokesman. So far the three members of the Management Board of Zalando SE have worked together on an equal footing without any member performing the function of the chairman or spokesman. The Supervisory Board cannot see any reason why it should change this established and successful cooperation.

- **No. 4.2.3 para. 2 sentences 4, 6 and 7:** According to the Code's recommendations, both positive and negative developments shall be taken into account when determining variable components of the compensation paid to members of the Management Board. The amount of compensation shall be capped, both overall and for the variable compensation components, and the variable compensation components shall be related to demanding, relevant comparison parameters. The current compensation system for the Management Board provides for a share option scheme as the variable component of the Management Board compensation, which was assessed to be appropriate by an independent compensation consultant.

23) The declaration of conformity is an unaudited part of the combined management report

This share option scheme contains no explicit rule requiring the consideration of negative developments. It includes performance targets linked to the average annual growth rate of the aggregated retail value of all sales transactions with persons or enterprises not belonging to the Zalando group. Negative developments are only taken into account by the fact that the execution of option rights, due to the strike price for the execution of the option rights, can become unattractive; therefore, we declare, for reasons of precaution, a deviation from No. 4.2.3 para. 2 sentence 4. Furthermore, the share option scheme contains no cap for the amount of compensation within the meaning of No. 4.2.3 para. 2 sentence 6, in particular since the current compensation system for the Management Board had been fixed by the Supervisory Board before the initial public offering and thus before the application of the Code's recommendations. In addition, when determining the compensation of the Management Board members, the specific situation of the Company as an international ecommerce player should be sufficiently taken into consideration. Lastly, it cannot be excluded that the agreed performance targets do not comply with the requirements laid down by the Code regarding demanding parameters. Therefore, we also declare, for reasons of precaution, a deviation from No. 4.2.3 para. 2 sentence 7.

The Supervisory Board is convinced that the option scheme for the Management Board is well balanced and appropriate. In the opinion of the Supervisory Board, the compensation, due to the variable, i.e. share-based, compensation component being linked to share price and due to the long-term nature of the defined targets as well as the significant strike price for exercising the share options, is sufficiently oriented toward the situation of the company and its long-term positive development. Against this background, the Supervisory Board currently does not intend to adjust the agreements concluded with the Management Board.

- **Nos. 4.2.4 and 4.2.5:** According to the Code's recommendations, the compensation of the members of the Management Board shall be disclosed by name, divided into fixed and variable components as well as fringe benefits. These recommendations are not complied with because the General Meeting of ZALANDO SE resolved on 11 July 2014 in accordance with sections 286 (5), 314 (2) sentence 2, 315a (1) HGB (German Commercial Code) in connection with article 61 of the SE Regulation that the compensation of the members of the Management Board shall not be disclosed by name in the annual and consolidated financial statements of ZALANDO SE to be prepared for fiscal years 2014 up to (and including) 2018. For the duration of a corresponding "opt-out" resolution passed by the General Meeting, the Company will abstain from including in the compensation report the disclosures recommended under No. 4.2.5 para. 3 of the Code.

- **No. 5.4.5 sentence 2:** According to the Code's recommendations, members of the management board of a listed company shall not accept more than a total of three supervisory board mandates in non-group listed companies or in supervisory bodies of non-group companies which make similar requirements. One of the members of the Supervisory Board of ZALANDO SE is the CEO of a foreign listed company and currently at the same time has accepted more than three mandates in Supervisory Boards of non-group listed companies or in supervisory bodies of non-group companies which make similar requirements. However, ZALANDO SE does not consider this to be a limitation of the proper fulfilment of the Supervisory Board member's responsibilities as the Supervisory Board member has sufficient time to perform his mandate at ZALANDO SE. Since it is not sufficiently clear whether No. 5.4.5 sentence 2 of the Code also applies to Management Boards of foreign listed companies, we declare, for reasons of precaution, a deviation.

The declaration of conformity is available on ZALANDO SE's website in the corporate governance section.

06.1.2 CORPORATE GOVERNANCE

ZALANDO SE's corporate governance is determined in particular by legal requirements, the recommendations set out in the German Corporate Governance Code and internal corporate guidelines.

Sustainable corporate governance is ensured by combining economic success with environmentally compatible and socially balanced activities. ZALANDO SE's social and ethical responsibility is exhibited in the Code of Conduct for business partners of the company. This contains provisions regarding statutory minimum wages, working hours and other rules of conduct concerning ecological, social and regulatory framework conditions in addition to providing for socially acceptable working conditions at all fulfillment sites by means of uniform social standards, as well as by defining ethical sourcing standards for all suppliers of fashion products.

An accounting-related internal control system is in place to ensure the accuracy of bookkeeping and accounting and the reliability of financial reporting, which comprises preventive, monitoring, and detection measures designed to ensure security and control in accounting and operational functions.

In addition, the company has set up a Governance, Risk & Compliance department to detect, manage and monitor risks and opportunities at an early stage. By continuously refining the instruments employed in the risk management system, this department can ensure that risks and opportunities are recorded and managed using a uniform approach throughout the company. Potential compliance risks are also considered. All employees of Zalando are required to be aware of risks inherent in their work and prevent risks that could jeopardize the company's ability to continue as a going concern. The compliance management system institutes guidelines, and offers advisory services and training to employees to address the prevention of compliance infringements in particular. Obligatory basic compliance training for employees as well as special training on specific topics such as anti-trust law, data protection and insider trading reinforces awareness of the significant regulatory framework and internal rules and regulations and provides information regarding the established processes within the compliance management system.

Additionally, various communication channels have been installed to facilitate the reporting of presumed compliance infringements – on an anonymous basis if preferred. The Compliance Panel has been set up to clarify and assess potential compliance infringements. In fulfilling its duties, the Governance, Risk & Compliance department works in close collaboration with the Legal department and internal audit to ensure a uniform approach to appropriately evaluating and mitigating risks across functions. The Management Board is responsible for ensuring that the risk and compliance management system functions as a whole and the Supervisory Board monitors the effectiveness of the system.

06.1.3 MANAGEMENT BOARD AND SUPERVISORY BOARD PROCEDURES

MANAGEMENT BOARD PROCEDURES

The Management Board bears responsibility for managing the company's business. It is bound to act in the interest of the company and to increase the long-term value of the company. The three members of the Management Board, Robert Gentz, David Schneider and Rubin Ritter, manage the company in partnership and, as members of the Management Board with equal rights, are responsible for the corporate strategy and its daily implementation. The Management Board thus does not currently have any female members. The term of appointment of the Management Board members runs until the end of November 2018, which thus exceeds the deadline for establishing a female representation target by June 30, 2017 pursuant to section 111 (5) AktG. The Supervisory Board has therefore passed a resolution to establish a female representation target of 0% to be achieved by June 30, 2017 in accordance with section 111 (5) AktG.

The Management Board develops the company's strategy, consults regularly with the Supervisory Board on this and ensures that it is implemented. It also manages the company's business transactions with the diligence of a prudent and conscientious business manager. The Management Board's collaboration with other corporate bodies and employee representatives is open and trusting and has the interests of the company in mind.

The collaboration and responsibilities of the Management Board members are defined in the Rules of Procedure set out by the Supervisory Board. Each member of the Management Board has sole responsibility for the area of business allocated to him. Each area of business is managed in line with the same targets agreed upon in resolutions passed by the Management Board. The members of the Management Board take joint responsibility for the overall management of the company irrespective of the allocation of areas of business. They work collaboratively and inform each other constantly about any significant measures and events within their areas of business.

The Management Board meets regularly, typically every two weeks. The Management Board is in regular contact with the chairwoman of the Supervisory Board, informs her of the progress of business and the situation of the company and of group entities and consults with her on strategy, planning, business development and risk management within the company. Should an important event occur or should any business issue arise that could be of significant importance to the evaluation of the situation, the development or the management of the company, the Management Board communicates this to the chairperson of the Supervisory Board immediately.

Each member of the Management Board is obliged to disclose any conflicts of interest to the Supervisory Board immediately. All transactions between the company or group entities, on the one side, and the members of the Management Board as well as their related parties, on the other side, must be conducted at arm's length conditions and require Supervisory Board approval.

SUPERVISORY BOARD PROCEDURES

The Supervisory Board advises and monitors the Management Board on the management of the company. It is directly involved in decisions of fundamental importance to the company. The Supervisory Board works with the company's best interest in mind in close and trusting collaboration with other corporate bodies, in particular with the Management Board. ZALANDO SE's Supervisory Board has nine members, three of whom are employee representatives.

MEMBERS OF THE SUPERVISORY BOARD IN FISCAL YEAR 2015 WERE

36 SUPERVISORY BOARD

Cristina Stenbeck (since Feb 10, 2014)
Lorenzo Grabau (since Dec 12, 2013)
Lothar Lanz (since Feb 10, 2014)
Kai-Uwe Ricke (since June 3, 2014)
Alexander Samwer (since Dec 12, 2013)
Anders Holch Povlsen (since Dec 12, 2013)
Benjamin Krümel (until June 2, 2015)
Dr. Christoph Stark (until June 2, 2015)
Christine de Wendel (until June 2, 2015)
Konrad Schäfers (since June 2, 2015)
Dylan Ross (since June 2, 2015)
Beate Siert (since June 2, 2015)

The Supervisory Board of ZALANDO SE has set targets regarding its composition. It strives for a composition that takes account of and safeguards the particular needs of the company so that the Management Board is monitored, supervised and advised in a competent and professional manner.

Every member of the Supervisory Board has the knowledge, skills and professional experience needed to properly fulfill his or her duties and responsibilities. In addition, each member ensures he or she has sufficient time to carry out his or her duties. A maximum of two former members of the Management Board are permitted to be members of the Supervisory Board. The members of the Supervisory Board may not accept mandates for bodies of or advisory activities for significant competitors of the company.

With regard to its composition, while qualification remains the decisive criterion, the Supervisory Board strives to adequately reflect the international character and the various fields of core competences of the business model while considering diversity, in particular with regard to professional experience and expertise. In order to accommodate the international character of the company, the Supervisory Board should as a rule have no less than two international members. The single most important factor for nominating a member to the Supervisory Board is the candidate's qualification, which is not dependent on the candidate's age. As a result, the Supervisory Board sees no benefit in introducing fixed age limits. As a rule, however, Supervisory Board members should not be older than 70 when elected. The Supervisory Board strives to adequately consider women in the diversity of its composition, with the specific target that no less than two women should be members of the Supervisory Board. In accordance with Sec. 111 (5) AktG, the company has established a target of 22% female members in the Supervisory Board. The company anticipates fulfilling this target by the deadline of June 30, 2017. Irrespective of the target set, the Supervisory Board strives to increase female representation on the Supervisory Board. Furthermore, no less than five members of the Supervisory Board should be independent as defined in section 5.4.2 of the German Corporate Governance Code, with no less than two of such independent members representing the shareholders. Candidates, who are likely to be confronted with an increased level of conflicts of interests, should not be proposed for election by the annual general meeting. In general, a Supervisory Board member should not serve as a member for longer than twelve years. The Supervisory Board is convinced that such composition ensures an independent and efficient consultation and oversight of the Management Board. The composition of the Supervisory Board of ZALANDO SE in fiscal year 2015 met the targets it had set itself in all respects.

The Supervisory Board has adopted Rules of Procedure. They govern the procedures and allocation of duties of the Supervisory Board and its committees. The Supervisory Board convenes at least one meeting per quarter, others are convened as necessary. The Supervisory Board regularly reviews the efficiency of its activities. In addition to the qualitative criteria to be determined by the Supervisory Board, the purpose of the review includes assessing the procedures in the Supervisory Board as well as the information provided to the Supervisory Board both in terms of timing and sufficient content.

Each member of the Supervisory Board must disclose to the Supervisory Board conflicts of interest, particularly those that might arise as a result of an advisory or committee function at customers, suppliers, creditors, borrowers or other third parties. If a member of the Supervisory Board has a significant, non-temporary conflict of interest, that member of the Supervisory Board should resign from office.

The Supervisory Board has set up an audit committee, a remuneration committee and a nomination committee. These committees comprise at least three members each.

AUDIT COMMITTEE

The audit committee prepares, among other things, the negotiations and resolutions of the Supervisory Board on the audit and ratification of the separate financial statements and the approval of the consolidated financial statements, the proposed resolution of the Management Board on the appropriation of profits and the proposal of the Supervisory Board to the annual general meeting on the election of the auditor. In addition, the audit committee handles questions regarding accounting, the discussion of financial reports, monitoring the effectiveness of the internal risk management and control systems, the internal audit system and questions regarding the compliance and monitoring of the audit. The audit committee also discusses the audit reports with the auditor as well as its findings, and provides recommendations in this respect to the Supervisory Board.

37 AUDIT COMMITTEE

Lothar Lanz (Chairperson of the audit committee)
Kai-Uwe Ricke (Deputy chairperson of the audit committee)
Lorenzo Grabau
Konrad Schäfers (since June 2, 2015)
Dr. Christoph Stark (until June 2, 2015)

The chairperson of the audit committee, Lothar Lanz, as an independent member of the Supervisory Board, has the requisite expertise in the area of accounting or auditing pursuant to section 100 (5) AktG.

REMUNERATION COMMITTEE

The remuneration committee deals with the company's remuneration system and its refinement as well as with the amount and appropriateness of Management Board remuneration, and provides recommendations as a decision-making basis for the Supervisory Board.

38 REMUNERATION COMMITTEE

Lorenzo Grabau (Chairperson of the remuneration committee)
Alexander Samwer
Beate Siert (since June 2, 2015)
Cristina Stenbeck
Christine de Wendel (until June 2, 2015)

NOMINATION COMMITTEE

The nomination committee exclusively comprises shareholder representatives. The nomination committee prepares the proposals of the Supervisory Board to the annual general meeting regarding the election of Supervisory Board members. In the process, it considers the specific targets of the Supervisory Board regarding its composition.

39 NOMINATION COMMITTEE

Cristina Stenbeck (Chairperson of the nomination committee)
Anders Holch Povlsen
Alexander Samwer

06.1.4 TARGET OF FEMALE REPRESENTATION IN MANAGEMENT LEVELS BELOW THE MANAGEMENT BOARD

In accordance with section 76 (4) AktG, the Management Board established a target for the representation of women in the two management levels below the Management Board for the first time in fiscal year 2015. In the past years, Zalando has attached great importance to diversity throughout the company and has always considered the representation of women in the workforce and in the management of Zalando to be an aspect of a diverse employee structure. In the reporting year, women accounted for 47.3% of the workforce, while women occupied 33.7% of management positions. Based on the company average, the two management levels below the Management Board however have a lower percentage of women. In order to also send out a clear signal of Zalando's aim to support women in top level management, the Management Board has set an ambitious target of increasing female representation in the first level directly below the Management Board from 0% to 15% by June 30, 2017 and to further increase female representation in the next management level from 23% at present to 30%.

06.1.5 MANAGEMENT BOARD AND SUPERVISORY BOARD SHAREHOLDINGS

As of the end of fiscal year 2015, the co-founders of the company and members of the Management Board Robert Gentz and David Schneider each held 1.85% of shares in the company. The Management Board member Rubin Ritter held less than 1% of shares. The Supervisory Board member Anders Holch Povlsen held 9.35% of shares at the end of fiscal year 2015. The other Supervisory Board members cumulatively held less than 1% of shares.

A report on the transactions conducted during fiscal year 2015 by those at management level is published on the ZALANDO SE website in the Investor Relations section.

06.1.6 TAKEOVER LAW DISCLOSURES PURSUANT TO SECTIONS 289 (4), 315 (4) HGB[24]

The disclosures required according to Secs. 289 (4), 315 (4) HGB are listed and explained below. In the opinion of the Management Board, there is no need for more detailed explanations as defined in sections 175 (2) Sentence 1, 176 (1), Sentence 1 AktG.

COMPOSITION OF ISSUED CAPITAL

With respect to the composition of the issued capital, please refer to the notes to the consolidated financial statements.

RESTRICTIONS RELATING TO THE VOTING RIGHTS OR THE TRANSFER OF SHARES

At the end of the reporting year, ZALANDO SE had 50,000 treasury shares that do not grant rights in accordance with section 71b AktG.

SHAREHOLDINGS THAT EXCEED 10% OF THE VOTING RIGHTS

At the end of fiscal year 2015, Verdere S.àr.l. (Luxembourg) held an indirect shareholding in ZALANDO SE that exceeded the threshold of 10% of voting rights. Information on the amount of the above-mentioned shareholding in the company can be found in section 01.6.1 Shareholder structure.

STATUTORY REGULATIONS AND PROVISIONS OF THE ARTICLES OF ASSOCIATION CONCERNING THE APPOINTMENT AND REMOVAL FROM OFFICE OF MANAGEMENT BOARD MEMBERS, AND CONCERNING MODIFICATIONS TO THE ARTICLES OF ASSOCIATION

According to Art. 9 (1), Art. 39 (2) and Art. 46 of the SE Regulation, Secs. 84 and 85 AktG and Art. 7 (4) of the Articles of Association, the Supervisory Board appoints the members of the Management Board for a maximum term of five years. In accordance with Art. 7 of the Articles of Association, the Management Board comprises at least two persons, otherwise the Supervisory Board determines the number of members of the Management Board.

The annual general meeting passes the resolutions to amend the Articles of Association. The amendments to the Articles of Association were made in accordance with Secs. 179, 133 AktG and Art. 12 of the Articles of Association. According to Art. 12 (5) of the Articles of Association, the Supervisory Board is entitled to make changes and additions to the Articles of Association that pertain to the wording only. Pursuant to Art. 4 (3) and (4) of the Articles of Association, the Supervisory Board is specifically authorized to amend or rewrite Art. 4 of the Articles of Association (Share capital) following utilization of authorized or conditional capital.

AUTHORITY OF THE MANAGEMENT BOARD TO ISSUE SHARES OR ACQUIRE TREASURY SHARES

The Management Board is authorized to increase the share capital of the company in the period until October 28, 2018 subject to the approval of the Supervisory Board one or more times by a total of up to EUR 3,062,125 by issuing up to 3,062,125 no-par value bearer shares in exchange for cash contributions (authorized capital 2013). The subscription right of shareholders is excluded. The authorized capital 2013 serves to meet purchase rights (option rights) granted or promised by the company before its conversion into a stock corporation (AG) or affiliates or by shareholders of the company to employees or managing directors of the company and its affiliates in the period from March 2009 through September 2013. Shares from the authorized capital 2013 may only be issued for this purpose.

24) Takeover law disclosures pursuant to Secs. 289 (4), 315 (4) HGB are part of the combined management report and also form part of the corporate governance report with the declaration of conformity

The Management Board is authorized to increase the share capital of the company in the period until June 1, 2020 subject to the approval of the Supervisory Board one or several times by a total of up to EUR 94,694,847 by issuing up to 94,694,847 new no-par value bearer shares in exchange for cash contributions and/or contributions in kind (authorized capital 2015). The shareholders must typically be granted subscription rights. The shares may also be taken over by one or more credit institution(s) or an enterprise as defined in section 186 (5) Sentence 1 AktG with the obligation to offer such shares to the shareholders for subscription (indirect subscription right).

The Management Board is to be authorized to preclude, subject to the approval of the Supervisory Board, the subscription rights of the shareholders in the following cases: (i) to exclude fractional amounts from the subscription rights, (ii) to grant subscription rights to holders or creditors of bonds with conversion and/or option rights or obligations to company shares as compensation for dilution, as it would have been granted to them after the exercise of these rights or after fulfilling obligations, (iii) in the case of a cash capital increase, if the issue amount of the new shares does not significantly fall below the quoted price of company shares already listed. This authorization is, however, subject to the proviso that the shares issued excluding subscription rights pursuant to section 186 (3) Sentence 4 AktG may not exceed a total of 10% of the share capital. This applies to the share capital existing both at the time the authorization comes into effect and, if the amount is lower, when it is exercised. This limit of 10% of the share capital includes shares that were issued or sold in direct or corresponding application of Sec. 186 (3), Sentence 4 AktG during the term of this authorization until the time of its utilization. This limit also includes those shares to be issued or sold to serve bonds with conversion and/or option rights or obligations during the term of this authorization, applying section 186 (3) Sentence 4 AktG precluding the subscription rights. Pursuant to the preceding two sentences, shares whose authorization has been exercised (i) to issue new shares in accordance with section 203 (1) Sentence 1, (2) Sentence 1, section 186 (3) Sentence 4 AktG and/or (ii) to sell treasury shares in accordance with section 71 (1) No. 8, section 186 (3) Sentence 4 AktG and/or (iii) to issue bonds with conversion or option rights or obligations in accordance with section 221 (4) Sentence 2, section 186 (3) Sentence 4 AktG, are no longer to be included in the future, if and to the extent which the annual general meeting would reissue the respective authorization(s) whose inclusion would have been affected were they to be exercised in accordance with legal requirements; or (iv) in the case of a non-cash capital increase, in particular in the form of entities, parts of entities, or equity investments receivables or other assets. After this authorization in exclusion of the shareholders' subscription rights in exchange for cash or non-cash contributions, the total of the issued shares may not represent more than 20% of the share capital, either on the date on which this authorization takes effect or on the date on which it is exercised. Until the share issue precludes subscription rights, this 20% limit is to include (i) treasury shares sold precluding subscription rights as well as (ii) shares that have been issued to serve bonds with conversion and option rights and/or obligations to the extent which the bonds had been issued precluding subscription rights of shareholders on the basis of the authorization granted by the annual general meeting on June 2, 2015. The Management Board is authorized, subject to the approval of the Supervisory Board, to determine further details concerning the performance of the capital increase and the content of the respective share rights and the conditions of share issue. The Supervisory Board is authorized to amend the Articles of Association based on the performance of the increase in share capital or once the period of authorization expires.

The Management Board is authorized until June 1, 2020 to acquire treasury shares for any permissible purpose totaling up to 10% of the share capital existing as of the date of the resolution or, if the amount is lower, share capital existing at the time this authorization is exercised. Shares acquired may not at any time amount to more than 10% of total share capital when taken together with other treasury shares held by the company or allocable to the company in accordance with section 71a et seq. AktG. In addition to this, the Management Board is authorized until June 1, 2020 to acquire treasury shares through the use of derivatives. All shares that are acquired using derivatives are limited to shares that pertain to at most 5% of the share capital existing as of the date of the resolution of the annual general meeting or, if the amount is lower, share capital existing at the time this authorization is exercised. We refer to resolutions proposed by the Management Board and Supervisory Board in points 7 and 8 of the company's annual general meeting agenda for June 2, 2015, which was published in the Bundesanzeiger [German Federal Gazette] on April 23, 2015, with regard to details of the authorization to acquire treasury shares.

COMPANY COMPENSATION AGREEMENTS THAT HAVE BEEN ENTERED INTO WITH MANAGEMENT BOARD MEMBERS OR EMPLOYEES IN THE EVENT OF A TAKEOVER BID

The stock option program SOP 2013 allows for stock option rights held by the Management Board to be revoked in the case of a change of control. The Supervisory Board and/or the Management Board are entitled to request the proportionate cancelation of the vested outstanding options in line with share obtained by the acquiring company as a result of the change of control in exchange for payment by the company. With respect to the stock options not yet vested at the time of a change in control, the Supervisory Board is authorized at its own discretion to grant other performance-based compensation similar in terms of value (including share appreciation rights, phantom stocks or other stock options) in exchange for the cancelation of the stock options granted within the scope of SOP 2013.

SIGNIFICANT COMPANY AGREEMENTS SUBJECT TO A CHANGE OF CONTROL DUE TO A TAKEOVER BID

The significant group agreements that are subject to the condition of a change of control involve the revolving credit facility and various reverse factoring agreements concluded in connection with the initial public offering. In the event of a change of control, these agreements provide, as is customary for creditors, the right to terminate the agreement and accelerate repayment, or for factors, the right to terminate the agreement or renegotiate the contractual terms.

06.1.7 REMUNERATION REPORT [25]

BASIC FEATURES OF THE REMUNERATION SYSTEM FOR THE MEMBERS OF THE MANAGEMENT BOARD

Total remuneration consists of a fixed base salary and a long-term incentive through option programs.

The total remuneration is appropriate to the tasks and performance of each member of the Management Board. The criteria used to determine what remuneration is appropriate relate to the responsibilities of the individual members of the Management Board, the personal achievement together with the company's economic situation, performance and future development. The industry environment and the remuneration structure that otherwise applies in the company is also considered.

Pursuant to the resolution passed at the company's extraordinary general meeting held on July 11, 2014, information on the individual remuneration of each member of the Management Board is not disclosed in accordance with Secs. 285 (9), 315a (1) and 314 (1) HGB in conjunction with section 61 of the SE Regulation.

25) This remuneration report is part of the combined management report and also forms a component of the corporate governance report with the declaration of conformity

NON-SHARE-BASED PAYMENTS (NON-PERFORMANCE-BASED REMUNERATION)

The members of the Management Board receive non-share-based remuneration, such as salaries, non-cash payments and other benefits.

The salaries of the members of the Management Board are paid in monthly installments. The members of the Management Board as a group received annual salaries totaling EUR 0.6m in fiscal year 2015 (prior year: EUR 0.6m).

In addition, the members of the Management Board were entitled to non-cash payments and other benefits totaling EUR 0.06m in fiscal year 2015 (prior year: EUR 0.04m). Non-cash payments include the use of company cars. Other benefits include reimbursement of standard expenses, such as travel expenses, contributions towards health insurance and monthly gross amounts which correspond to the employer's contributions to the statutory pension and unemployment insurance.

SHARE-BASED PAYMENTS (LONG-TERM INCENTIVES)

No new option rights were granted to the Management Board in fiscal year 2015.

The members of the Management Board participated in the option programms COPs, SOP 2011 and SOP 2013 in the fiscal year 2015 (as they did in the prior year).

Zalando has granted options entitling the beneficiaries to acquire shares in the company after a certain period of service to one member of the Management Board, the members of top management and other selected managers of the group. The exercise price of all options grouped under the COPs is EUR 1.00. Each option entitles the beneficiary to acquire one share. The issue of benefits under the COPs is complete. All options granted are vested. The number of options exercised by the member of the Management Board during the reporting period amounts to 80,410 (prior year: 0). The beneficiaries can exercise vested options for an unlimited period. The weighted average share value on the date of exercise of an option exercised in the reporting period 2015 of the Management Board amounted to EUR 23.15 (prior year: EUR 0.0).

The SOP 2011 was granted to the Management Board in the fiscal year 2011. The SOP 2011 consists of options that entitle the members of the Management Board as a group to acquire a total of 3,085,500 new shares in the company after a certain period of service. The exercise price is EUR 5.65 per option. Each option entitles the beneficiary to acquire one share. The issue of options within the scope of SOP 2011 is closed.

The options granted to the beneficiaries vest in sub-tranches. The options vest if the beneficiary is employed at Zalando for the vesting period of the respective sub-tranche. The last sub-tranche of the SOP 2011 will vest in October 2018. Vested options are forfeited if the beneficiary leaves the group before the end of the respective vesting period. The beneficiaries have no claim to cash payment.

The number of outstanding options within the scope of SOP 2011 developed as follows in the reporting period:

40 DEVELOPMENT OPTIONS 2011

	NUMBER	WEIGHTED AVERAGE EXERCISE PRICE (EUR)
Outstanding options as of Jan 1, 2014	**3,085,500**	**5.65**
Options granted during the reporting period	0	–
Options forfeited during the reporting period	0	–
Options exercised during the reporting period	0	–
Options lapsed during the reporting period	0	–
Outstanding options as of Dec 31, 2014	**3,085,500**	**5.65**
Options vested as of Dec 31, 2014	**1,739,100**	**5.65**
Outstanding options as of Jan 1, 2015	**3,085,500**	**5.65**
Options granted during the reporting period	0	–
Options forfeited during the reporting period	0	–
Options exercised during the reporting period	355,300	5.65
Options lapsed during the reporting period	0	–
Outstanding options as of Dec 31, 2015	**2,730,200**	**5.65**
Options vested as of Dec 31, 2015	**1,720,400**	**5.65**

The options issued by the company can be exercised as of the vesting date. The beneficiaries can exercise vested options for an unlimited period. The weighted average share value on the date of exercise of an option exercised in the reporting period 2015 amounted to EUR 26.34.

The SOP 2013 includes call options granted to the members of the Management Board in the fiscal year 2013. The options entitle the holders to acquire a total of 9,817,500 shares in the company, provided that the beneficiaries have worked for the company for the period specified within a tranche, the performance conditions contained in SOP 2013 has been fulfilled, and the waiting period has elapsed. The exercise price is EUR 15.63 per option. Each option entitles the beneficiary to acquire one share. The issue of options within the scope of SOP 2013 is closed. No new options are granted.

The options granted to the members of the Management Board vest in 60 sub-tranches over a period of five years. The condition of a tranche relating to the period of service is met if the beneficiary is employed at Zalando over the vesting period of the respective sub-tranche. The performance condition stipulates that Zalando must achieve a certain level of contractually agreed revenue growth over a period of four years, starting on the grant date. If the contractual revenue target is not achieved, the options are forfeited without replacement. The waiting period commences on the date on which the option is granted. It also lasts for a period of four years. The beneficiaries can exercise vested options after the waiting period within a certain time frame over a period of five years. Within the five-year exercise period, options can be exercised within three weeks of the publication of each of the quarterly, half-year and annual financial statements. The beneficiaries have no claim to cash payment.

The number of outstanding options within the scope of SOP 2013 developed as follows in the reporting period:

41 DEVELOPMENT OPTIONS 2013

	NO.	WEIGHTED AVERAGE EXERCISE PRICE (EUR)
Outstanding options as of Jan 1, 2014	**9,817,500**	**15.63**
Options granted during the reporting period	0	–
Options forfeited during the reporting period	0	–
Options exercised during the reporting period	0	–
Options expired during the reporting period	0	–
Outstanding options as of Dec 31, 2014	**9,817,500**	**15.63**
Options vested as of Dec 31, 2014	**1,952,280**	**15.63**
Outstanding options as of Jan 1, 2015	**9,817,500**	**15.63**
Options granted during the reporting period	0	–
Options forfeited during the reporting period	0	–
Options exercised during the reporting period	0	–
Options expired during the reporting period	0	–
Outstanding options as of Dec 31, 2015	**9,817,500**	**15.63**
Options vested as of Dec 31, 2015	**3,904,560**	**15.63**

The options can be exercised in return for payment of the exercise price. The beneficiaries can alternatively request a reduction of the exercise price from EUR 15.63 to EUR 1.00 for options already vested but not yet exercised. In this case, the number of options already vested but not yet exercised is reduced, leaving the beneficiary neither better nor worse off economically.

The weighted average of the remaining contractual term of the outstanding or exercisable options (meaning the period until the options' expiry date) is six years and 354 days as of the reporting date (prior year: seven years and 354 days).

OTHER NOTES

For the duration of their employment, any professional activities undertaken by members of the Management Board outside of the group require the prior written consent of the Supervisory Board. Moreover, every service contract contains a non-competition clause, which prohibits members of the Management Board from working for companies in direct or indirect competition with the company or that are affiliated with competitors of this kind. Notwithstanding this, each member of the Management Board is free to invest in a competitor, as long as the stake does not exceed 2% of the voting rights of the company. The non-competition clause for the members of the Management Board also applies for business segments in which affiliates operate.

The conditions stipulated in the service contracts between the members of the Management Board and the company entered into force when the change in the company's legal form to a stock corporation was entered in the commercial register. These contracts are valid until November 30, 2018. The service contracts can only be terminated for good cause during this period. When a member of the Management Board is dismissed, the service contract does not end automatically.

Pursuant to the respective provisions of the AktG, the members of the Management Board are also covered by insurance policies for directors and officers (D&O insurance) with adequate coverage and deductibles amounting to 10% of the loss, but no more than 150% of the annual fixed salary. The D&O insurance policies cover financial losses caused by breaches of duty on the part of the members of the Management Board in the performance of their tasks.

Apart from the service contracts, there are no service or employment contracts between the members of the Management Board and their related parties and the company or their subsidiaries.

TOTAL COMPENSATION

The members of the Management Board were granted total remuneration of EUR 0.7m in fiscal year 2015 (prior year: EUR 0.6m).

42 BENEFITS GRANTED

	MANAGEMENT BOARD MEMBERS			
IN EUR	2015	2015 (MIN)	2015 (MAX)	2014
Fixed compensation	600,000	600,000	600,000	600,000
Fringe benefits	56,156	56,156	56,156	35,878
Total	**656,156**	**656,156**	**656,156**	**635,878**
One-year variable compensation	0	0	0	0
Multi-year variable compensation	0	0	0	0
Total	**656,156**	**656,156**	**656,156**	**635,878**
Service	0	0	0	0
Total	**656,156**	**656,156**	**656,156**	**635,878**

The following table shows allocations for fiscal 2015 for fixed compensation, fringe benefit, one-year variable compensation and multi-year variable compensation – by reference year – as well as the expense of pension benefits. This table includes the actual figure for multiyear variable compensation granted in previous years and allocated in fiscal 2015.

43 ALLOCATION

	MANAGEMENT BOARD MEMBERS	
IN EUR	2015	2014
Fixed compensation	600,000	600,000
Fringe benefits	56,156	35,878
Total	**656,156**	**635,878**
One-year variable compensation	0	0
Multi-year variable compensation	6,758,180	11,133,090
SOP 2011 *	4,928,852	0
COPs *	1,829,328	0
SOP 2013 **	0	11,133,090
Total	**7,414,336**	**11,768,968**
Service	0	0
Total	**7,414,336**	**11,768,968**

*) Excercise of options
**) Transfer of options to companies wholly owned by management board members

REMUNERATION OF SUPERVISORY BOARD MEMBERS

The remuneration of Supervisory Board members is governed by Art. 15 of the Articles of Association and comprises fixed annual payments. The amount is based on the responsibilities and scope of the activities carried out by the respective Supervisory Board member as well as the company's economic situation.

According to the version of the Articles of Association valid at the end of the reporting period, every member of the Supervisory Board receives an annual fixed remuneration of EUR 50,000. The chairperson of the Supervisory Board and the chairperson of the audit committee receive twice this amount. The deputy chairperson of the Supervisory Board and the deputy chairperson of the audit committee receive one and a half times of EUR 50,000. In addition to the remuneration mentioned above, the company reimburses the members of the Supervisory Board for reasonable out-of-pocket expenses that arise when performing their duties as Supervisory Board members, as well as the value-added tax on their remuneration and out-of-pocket expenses. Supervisory Board members who only hold their office as members or chairpersons for part of a fiscal year receive a proportionate share of remuneration. The remuneration of the Supervisory Board members falls due after the annual general meeting which accepts the consolidated financial statements for the fiscal year for which the remuneration is paid or decides on their approval.

The members of the Supervisory Board are covered by a D&O insurance policy held by the company.

Approval of remuneration for the term of the members of the first Supervisory Board of Zalando AG in fiscal year 2014 up to when the company took on its new legal form as ZALANDO SE was granted by the annual general meeting which took place on June 2, 2015. Remuneration for fiscal year 2015 breaks down as follows:

44 SUPERVISORY BOARD REMUNERATION

IN EUR	2015	2014
Mia Brunell Livfors (until Feb 10, 2014)	–	1,661
Cristina Stenbeck (since Feb 10, 2014)	100,000	40,627
Lorenzo Grabau	75,000	30,857
Lothar Lanz (since Feb 10, 2014)	100,000	60,468
Kai-Uwe Ricke (since June 3, 2014)	75,000	32,700
Alexander Samwer	50,000	22,826
Anders Holch Povlsen	50,000	22,826
Benjamin Krümel (until June 2, 2015)	20,959	18,772
Dr. Christoph Stark (until June 2, 2015)	20,959	18,772
Christine de Wendel (until June 2, 2015)	20,959	18,772
Konrad Schäfers (since June 2, 2015)	29,178	–
Dylan Ross (since June 2, 2015)	29,178	–
Beate Siert (since June 2, 2015)	29,178	–
Mikael Larsson (until Feb 10, 2014)	–	5,537
Martin Weber (until July 3, 2014)	–	5,039
Total	**600,411**	**278,857**

07 AUDIT OPINION

We have audited the annual financial statements, comprising the balance sheet, the income statement and the notes to the financial statements, together with the bookkeeping system, and the combined management report of ZALANDO SE, Berlin, for the fiscal year from January 1 to December 31, 2015. The maintenance of the books and records and the preparation of the annual financial statements and combined management report in accordance with German commercial law are the responsibility of the Company's management. Our responsibility is to express an opinion on the annual financial statements, together with the bookkeeping system, and the combined management report based on our audit.

We conducted our audit of the annual financial statements in accordance with section 317 HGB ["Handelsgesetzbuch": German Commercial Code] and German generally accepted standards for the audit of financial statements promulgated by the Institut der Wirtschaftsprüfer [Institute of Public Auditors in Germany] (IDW). Those standards require that we plan and perform the audit such that misstatements materially affecting the presentation of the net assets, financial position and results of operations in the annual financial statements in accordance with [German] principles of proper accounting and in the combined management report are detected with reasonable assurance. Knowledge of the business activities and the economic and legal environment of the Company and expectations as to possible misstatements are taken into account in the determination of audit procedures. The effectiveness of the accounting-related internal control system and the evidence supporting the disclosures in the books and records, the annual financial statements and the combined management report are examined primarily on a test basis within the framework of the audit. The audit includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the annual financial statements and combined management report. We believe that our audit provides a reasonable basis for our opinion.

Our audit has not led to any reservations.

In our opinion, based on the findings of our audit, the annual financial statements comply with the legal requirements and give a true and fair view of the net assets, financial position and results of operations of the Company in accordance with [German] principles of proper accounting. The combined management report is consistent with the annual financial statements and as a whole provides a suitable view of the Company's position and suitably presents the opportunities and risks relating to future development.

Berlin, 29 February 2016

Ernst & Young GmbH
Wirtschaftsprüfungsgesellschaft

Ludwig	Dr. Röders
Wirtschaftsprüfer	Wirtschaftsprüfer
[German Public Auditor]	[German Public Auditor]

08 GLOSSARY

Active customers
We define active customers as the number of customers who have placed at least one order in the last 12 months during the reporting period, irrespective of cancelations or returns.

Adjusted EBIT
We define adjusted EBIT as EBIT before equity-settled share-based payment expense.

Adjusted EBITDA
We define adjusted EBITDA as EBITDA before equity-settled share-based payment expense.

Adjusted fulfillment cost ratio
We define the adjusted fulfillment cost ratio as fulfillment costs before equity-settled share-based payments, divided by the revenue during the reporting period. Fulfillment costs include expenditures for shipment processing, content creation, customer service and payment processing, as well as allocated overhead costs and write-downs on trade receivables. Fulfillment costs thus include all selling and distribution costs with the exception of marketing costs.

Adjusted marketing cost ratio
We define the adjusted marketing cost ratio as marketing costs before equity-settled share-based payment expense, divided by the revenue during the reporting period. Marketing costs consist of expenses for advertising, including search engine marketing and advertising on television, online and other marketing channels, as well as allocated overhead costs.

Apps
Applications that were developed to optimize internet use for a specific task with a mobile phone or smartphone.

Average basket size
We define the average basket size as the gross merchandise volume (including the gross merchandise volume from our partner program) after cancelations and returns, divided by the number of orders delivered during the reporting period. The gross merchandise volume is defined as the total amount spent by our customers (including VAT) less cancelations and returns during the reporting period.

Average orders per active customer
We define the average orders per active customer as the number of orders in the last 12 months of the reporting period, divided by the number of active customers.

Brand lookbook
A brand lookbook is a collection of product photographs that is used to present (new) collections of a brand.

Brand shop
We define brand shops as the pages within the Zalando shop that can be designed by the individual brands themselves. This allows these brands to present themselves in the best possible light in the Zalando environment, along the lines of an online flagship store.

Brand solutions
Zalando Brand Solutions is part of a partner program and allows brands to market their products directly via the Fashion Store. In addition, we make it possible for certain brands to design their own unique brand shop in the Zalando shop using a content management system. With the aid of analysis methods, they can assess any products or campaigns in detail.

Content creation
We define content creation as the production of photos and text for the sale of products on our websites.

Content management system
A content management system (CMS) is a program that allows joint creation, processing and organization of webpage content.

Customer service
We define customer services as the service we offer our customers via our hotline or e-mail.

EBIT
EBIT is short for “earnings before interest and taxes”.

EBITDA
EBITDA is short for EBIT before depreciation and amortization of property, plant and equipment and intangible assets.

EBIT margin
The EBIT margin is defined as EBIT as a percentage of revenue.

Fashion blogger
A fashion blogger operates a webpage in the form of a blog with a main focus on fashion.

Fast fashion
Fast fashion refers to affordable fashion or clothing that quickly transfers from the catwalk to stores in order to capture the most recent fashion trends.

Flagship store
A flagship store refers to company retail locations that are characterized by exclusive features and therefore serves as a retailer’s showcase location.

Free cash flow
Cash flow from operating activities plus cash flow from investment activities (excluding investments in time deposits and restricted cash).

Hack Week
Hack Week is our annual innovation week, in which Zalando Technology employees put their day-to-day tasks to one side in order to fully focus on their own creative ideas, develop new concepts and work on initial prototypes.

Influencer
We define influencers as opinion leaders that have a certain reach and contacts within the relevant target groups and therefore function as multipliers.

Merchandiser
Merchandisers showcase brands to promote the sale of products.

Mobile commerce
We define mobile commerce as retail via mobile devices such as smartphones or tablet computers.

Mobile visit share (as % of site visits)
We define the mobile visit share (as % of site visits) as the number of page views via m.sites, t.sites or apps divided by the total number of page views during the period in question.

m.sites
Websites designed to be accessed via mobile phones or smartphones that offer users internet access.

Net working capital
We calculate net working capital as the sum of inventories and trade receivables less trade payables and similar liabilities.

Number of orders
We define the number of orders as the number of orders placed by customers during the reporting period, irrespective of cancelations or returns. An order is counted on the day the customer places the order. The number of orders placed may differ from the number of orders delivered because the orders at the end of the reporting period may still be in transit or may have been canceled.

Private labels
For us private labels (zLabels) are Zalando's own labels. The product assortment comprises shoes, apparel and accessories for women, men and children.

Push notifications
Push notifications are notifications by apps on smartphones that inform users on news within this particular app.

Site visits
We define site visits as the number of series of page views from the same device and the same source (via websites, m.sites, t.sites or apps) during the relevant period. The series is considered ended when a page view is not recorded for longer than 30 minutes.

Smart data
Smart data is the result of processing and analyzing collected data to create added value.

Social media
Social media encompasses digital media and technologies that allow a social interaction between users and content creation.

Trendscout
A trendscout observes and analyzes the respective markets to detect developing trends at an early stage.

t.sites
Websites designed to be accessed via tablets, such as Apple iPad or the Samsung Galaxy tablets.

Win-win solutions
Win-win solutions allow all stakeholders to benefit from the solution.

IMPRINT

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