FINANCIAL STATEMENTS AND COMBINED MANAGEMENT REPORT 2016

01.1 BALANCE SHEET

ASSETS

→ 01

IN EUR M	DEC 31, 2016	DEC 31, 2015
A. Fixed assets		
I. Intangible assets		
Internally generated software	24.2	22.4
Industrial rights and similar rights and assets and licenses in such rights and assets	9.9	8.0
Prepayments and internally generated software under development	35.7	9.8
	69.8	*40.2*
II. Property, plant and equipment		
Plant and machinery	2.3	0.4
Other equipment, furniture and fixtures	21.7	17.7
Prepayments and assets under construction	1.0	0.3
	25.0	*18.4*
III. Financial assets		
Shares in affiliates	346.0	137.5
Equity investments	21.0	9.4
	367.0	*146.9*
	461.8	*205.5*
B. Current assets		
I. Inventories		
Raw materials and supply	3.2	0.0
Merchandise	553.1	482.4
Prepayments	1.1	1.4
	557.4	*483.8*
II. Receivables and other assets		
Trade receivables	303.2	204.0
Receivables from affiliates	51.6	22.7
Receivables from associates	3.5	0.0
Other assets	306.8	52.2
	665.1	*278.9*
III. Securities	477.9	594.7
IV. Cash on hand and bank balances	391.4	482.6
	2,091.8	*1,840.0*
C. Prepaid expenses	15.4	6.9
D. Deferred tax assets	4.5	46.3
Total	**2,573.5**	**2,098.7**

EQUITY AND LIABILITIES

→ 02

IN EUR M	DEC 31, 2016	DEC 31, 2015
A. Equity		
I. Subscribed capital	247.3	247.1
less nominal value of treasury shares Conditional capital: EUR 95.5m (prior year: EUR 90.4m)	–0.1	–0.1
	247.2	*247.0*
II. Capital reserve	1,171.4	1,151.3
III. Unappropriated profit (prior year: accumulated loss)	25.3	–107.5
	1,440.0	1,290.8
B. Government grants	0.1	1.3
C. Provisions		
Tax provisions	8.3	18.1
Other provisions	228.9	185.4
	237.2	*203.5*
D. Liabilities		
Prepayments received on account of orders	8.1	8.6
Trade payables	735.8	507.4
Liabilities to affiliates	49.5	3.0
Other liabilities thereof for taxes: EUR 45.1m (prior year: EUR 40.6m) thereof for social security: EUR 0.0m (prior year: EUR 0.0m)	97.1	83.2
	890.5	*602.2*
E. Deferred income	1.7	0.9
Total	**2,573.5**	**2,098.7**

02.1 INCOME STATEMENT

INCOME STATEMENT

→ 03

IN EUR M		JAN 1 – DEC 31, 2016	JAN 1 – DEC 31, 2015
1.	Revenue	3,650.7	2,950.8
2.	Other own work capitalized	45.2	22.4
3.	Other operating income thereof income from currency translation: EUR 22.6m (prior year: EUR 30.0m)	50.7	80.8
		3,746.6	*3,054.0*
4.	Cost of materials		
	a) Cost of raw materials, consumables and supplies and of purchased merchandise	–2,028.9	–1,621.1
	b) Cost of purchased services	–14.4	–0.00
5.	Personnel expenses		
	a) Wages and salaries	–197.7	–148.5
	b) Social security, pension and other benefit costs thereof for old-age pensions: EUR 0.1m (prior year: EUR 0.1m)	–29.7	–21.9
6.	Amortization of intangible assets and depreciation of property, plant and equipment	–27.0	–22.1
7.	Other operating expenses thereof expenses from currency translation: EUR 22.1m (prior year: EUR 28.8m)	–1,245.9	–1,148.8
		–3,543.6	*–2,962.4*
8.	Income from profit transfers	4.4	2.3
9.	Expenses from transfer of losses	–0.3	0.0
10.	Other interest and similar income thereof from affiliates: EUR 2.5m (prior year: EUR 0.2m) thereof from discounting of long-term provisions: EUR 0.1m (prior year: EUR 0.1m)	3.7	4.3
11.	Interest and similar expenses	–12.2	–7.2
		–4.4	*–0.6*
12.	Income taxes thereof expenses from changes in deferred taxes EUR 41.8m (prior year: income EUR 48.3m)	–65.7	36.2
13.	**Earnings after tax / Net income of the year**	132.9	127.2
14.	Loss carried forward from the prior year	–107.5	–234.7
15.	**Unappropriated profit (prior year: accumulated loss)**	**25.3**	**–107.5**

03.1 NOTES TO THE FINANCIAL STATEMENTS

03.1.1 GENERAL DISCLOSURES ON CONTENT AND CLASSIFICATION OF THE FINANCIAL STATEMENTS

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

The financial statements for the fiscal year were prepared in accordance with the accounting provisions for businessmen of Sec. 242 et seq. HGB and the supplementary provisions for public companies (Sec. 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 Sec. 275 (2) HGB.

The company based in Berlin is registered in the commercial register at Charlottenburg District Court (HRB 158855 B) under the company name ZALANDO SE.

Due to BilRUG and therefore the amendment of § 277 (1) HGB, the revenue of the prior year is limited comparable to the actual revenue.

03.1.2 ACCOUNTING AND VALUATION METHODS (SEC. 284 (2) NO. 1 HGB)

The accounting and valuation methods applied comply with the provisions of the HGB (Secs. 238 to 263 HGB), as well as the relevant provisions of the 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 Sec. 248 (2) HGB to capitalize **internally generated intangible assets** and amortizes these assets. 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 limited 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. Depreciation of property, plant and equipment is charged pro rata temporis using the straight-line method. Depreciation is charged over the following useful lives:

USEFUL LIVES → 04

	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.

Raw materials and supplies, as well as merchandise, are recognized at acquisition cost factoring in the weighted average pursuant to Sec. 240 (4) 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 in full individually.

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 Sec. 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: 30.5%). 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.

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). The German Commercial Code does not explicitly state how to recognize such awards during the vesting period. 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.

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.

Tax provisions and 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.

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 estimated 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 disclosed under trade payables on the face of the balance sheet.

Deferred income includes payments received prior to the reporting date that relate to income for a particular period after this date.

Receivables and liabilities in foreign currency are translated at the middle closing rate in accordance with Sec. 256a HGB. The realization principle (Sec. 252 (1) No. 4 Clause 2 HGB) and cost method (Sec. 253 (1) Clause 1 HGB) have been applied for receivables and liabilities with a remaining period of more than one year.

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 thirteen 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 Sec. 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 or 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 ineffectivities are identified, the negative market value of the corresponding derivative financial instrument is recorded in the provision for potential losses through profit or 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.

03.1.3 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 45.2m (prior year: EUR 22.4m) 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 expenses.

LIST OF SHAREHOLDINGS CLASSIFIED AS FIXED FINANCIAL ASSETS

The Company held shareholdings in the following affiliates and equity investments as of December 31, 2016:

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[6]	Brieselang	EUR
4	Zalando Logistics Mönchengladbach SE & Co. KG[6]	Mönchengladbach	EUR
5	Zalando Logistics Süd SE & Co. KG[6]	Berlin	EUR
6	Zalando S.A.S.	Paris, France	EUR
7	Zalando Customer Care DACH SE & Co. KG[6]	Berlin	EUR
8	Zalando Customer Care International SE & Co. KG[6]	Berlin	EUR
9	Zalando Content Creation SE & Co. KG[6]	Berlin	EUR
10	Zalando Payments SE & Co. KG[6,7]	Berlin	EUR
11	Zalando Fashion Entrepreneurs GmbH[2]	Berlin	EUR
12	Zalando Lounge Service GmbH[2]	Berlin	EUR
13	zOutlet Berlin GmbH[2,3]	Berlin	EUR
14	Zalando Ireland Ltd.	Dublin, Irland	EUR
15	Zalando Finland Oy	Helsinki, Finland	EUR
16	Zalando adtech lab GmbH[2,4]	Hamburg	EUR
17	Bread&Butter GmbH & Co. KG	Berlin	EUR
18	Portokali Property Development III SE & Co. KG[6]	Berlin	EUR
19	Fashion Connectivity Technologies GmbH	Berlin	EUR
20	Mobile Fashion Discovery GmbH	Berlin	EUR
21	Zalando Media Solutions GmbH[2]	Berlin	EUR
22	Bread&Butter Tradeshow Verwaltungs GmbH	Berlin	EUR

→ 05

Share of equity held by[1]	Share in capital in % 2016	Net income / loss for 2016 (in EUR m)	Equity (in EUR m)
Directly	100.0	0.7	–1.2
Directly	100.0	–0.1	44.4
Directly 2	99.0 1.0	0.8	57.8
Directly 2	99.0 1.0	0.5	93.0
Directly 2	99.0 1.0	0.0	72.7
Directly	100.0	0.1	0.8
Directly 2	99.0 1.0	0.0	0.1
Directly 2	99.0 1.0	0.0	0.7
Directly 2	99.0 1.0	0.0	0.9
Directly 2	99.0 1.0	0.5	4.8
Directly	100.0	0.0	0.0
Directly	100.0	0.0	0.0
Directly	100.0	3.0	0.3
Directly	100.0	–4.9	–1.1
Directly	100.0	–2.6	6.8
Directly	100.0	1.4	–0.4
Directly	100.0	–0.3	2.6
Directly 2	99.9 0.1	–0.1	0.0
Directly	100.0	–2.8	–3.1
Directly	100.0	–2.7	–2.9
Directly	100.0	–0.3	0.0
17	100.0	0.0	0.0

No.	Company	Company domicile	Currency
23	zLabels Trading Ltd.	Hong Kong, Hong Kong	HKD
24	infansho Holding GmbH	Berlin	EUR
25	Zalando Lounge Logistics SE & Co KG[6]	Berlin	EUR
26	Tradebyte Software GmbH	Ansbach	EUR
27	nugg.ad GmbH	Berlin	EUR
28	Zalando Logistics Polska sp. z o. o.	Warsaw, Poland	PLN
29	Zalando Logistics Operations Polska sp. z o. o.	Warsaw, Poland	PLN
30	zLabels China Trading Co. Ltd.	Dongguan City, China	CNY
31	zLabels Trading Southern Europe S.L.	Torrellano (Elche), Spain	EUR
32	zLabels LP GmbH i.G.	Berlin	EUR
Associated companies			
33	Anatwine Ltd.[5]	Cheltenham, United Kingdom	GBP
34	Le New Black SAS	Paris, France	EUR

1) The number refers to the number of the company
2) Net income 2016 before profit transfer
3) formerly zOutlets Berlin GmbH
4) formerly Metrigo GmbH
5) Fiscal year differs from the calendar year (June 30, 2016)
6) Zalando SE is General Partner
7) formerly MyBrands Zalando eStyles SE & Co. KG

→ 06

Share of equity held by[1]	Share in capital in % 2016	Net income / loss for 2016 (in EUR m)	Equity (in EUR m)
Indirectly	100.0	0.0	0.0
Directly	100.0	–0.1	4.9
Directly 2	99.9 0.1	0.0	2.2
Directly	100.0	0.6	1.2
21	100.0	1.3	4.8
2	100.0	–0.4	14.7
2	100.0	–0.4	19.8
23	100.0	0.0	0.0
1	100.0	0.0	0.0
1	100.0	0.0	0.0
Directly	36.4	–10.5	6.6
24	33.2	0.0	0.0

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 of EUR 11.6m (prior year: EUR 5.8m) and loans of EUR 40.0m (prior year: EUR 16.9m).

Other assets for the most part relate to VAT refund claims, fixed-term deposits, prepayments and creditors with debit balances.

As in the prior year, all receivables and other assets have a remaining term of less than one year.

BANK BALANCES

Bank balances of EUR 3.8m (prior year: EUR 3.8m) 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 a net deferred tax asset of EUR 4.5m (prior year: deferred tax asset of EUR 46.3m). The deferred tax assets of EUR 23.9m 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 21.4m; prior year: EUR 55.6m). Tax losses consist of tax losses for trade tax (EUR 60.4m; prior year: 174.5m EUR) and for corporate tax (EUR 78.6m; prior year: EUR 188.6m) and are valued with the respective tax rates (trade tax rate: 14.76%; corporate tax rate: 15.83%). Deferred tax assets are counterbalanced by deferred tax liabilities primarily stemming from internally generated intangible assets (EUR 19.4m; prior year: EUR 10.8m).

DEFERRED TAX ASSETS AND LIABILITIES → 07

	Deferred tax assets		Deferred tax liabilites		Net Balance	
IN EUR M	DEC 31, 2016	DEC 31, 2015	DEC 31, 2016	DEC 31, 2015	DEC 31, 2016	DEC 31, 2015
Intangible assets	0.0	0.0	–17.6	–9.3	–17.6	–9.3
Property, plant and equipment	0.0	0.0	–0.8	–0.9	–0.8	–0.9
Trade and other receivables	0.1	0.1	–0.7	–0.4	–0.6	–0.4
Provisions	2.3	1.5	–0.2	–0.2	2.2	1.3
Unused tax losses	21.4	55.6	0.0	0.0	21.4	55.6
Total	23.9	57.2	–19.4	–10.8	4.5	46.3
Netting	–19.4	–10.8	19.4	10.8	0.0	0.0
Total recognized deferred tax assets and liabilities	**4.5**	**46.3**	**0.0**	**0.0**	**4.5**	**46.3**

EQUITY

SUBSCRIBED CAPITAL

247,255,868 ordinary bearer no-par value shares (Stückaktien) are issued as of the reporting date (prior year: 247,059,518). 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 2016, subscribed capital was increased by a total of EUR 0.2m to EUR 247.2m 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:

AUTHORIZED AND CONDITIONAL CAPITAL → 08

	Amount in EUR m	Number of no-par value shares	Purpose
Authorized capital 2013	2.9	2,865,775	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
Conditional capital 2016	5.1	5,098,440	Servicing of subscription rights from EIP 2016

The use of authorized capital 2013 and authorized capital 2015 requires the approval of the Supervisory Board. No subscription rights from conditional capital 2013, conditional capital 2014 or conditional capital 2016 were exercised in the fiscal year.

The share capital was increased conditionally by up to EUR 5,098,440 against contribution in cash and in kind by the issuance of up to 5,098,440 new non-par value shares with a prorata share in the share capital of EUR 1.00 to fulfil subscription rights for shares of the company (conditional capital 2016). The conditional capital 2016 may be used to fulfil the subscription rights which have been granted – partly as a component of stock appreciation rights – in accordance with the resolution of the annual general meeting of May 31, 2016.

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 2016, ZALANDO SE repurchased 20,000 treasury shares at an average price of EUR 34.63, which corresponds to a notional share in share capital of EUR 20,000 and thus 0.01% of share capital. In total, the company holds

70,000 treasury shares (notional share in share capital of EUR 70,000) as of 31, December 2016 and thus 0,03% of share capital.

CAPITAL RESERVE

The capital reserve amounts to EUR 1,171,4m (prior year: EUR 1,151.3m). In the fiscal year, the capital reserve included an amount of EUR 20.8m stemming from share-based equity-settled payment awards (prior year: EUR 19.7m). The capital reserve includes an amount of EUR 2.4m (prior year: 1.7m) pertaining to treasury shares.

VOTING RIGHTS NOTIFICATIONS

Pursuant to Sec. 160 (1) No. 8 AktG, the company was notified of disclosures on equity investments in accordance with Sec. 20 (1) or (4) AktG or with Sec. 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

Tax provisions totaling EUR 8.3m (prior year: EUR 18.1m) relate to income taxes.

Other provisions totaling EUR 228.9m were recognized (prior year: EUR 185.4m). They primarily relate to product return claims (EUR 67.3m), outstanding invoices for fulfillment expenses (EUR 62.1m), marketing expenses (EUR 58.4m), as well as personnel-related expenses (EUR 7.7m).

LIABILITIES

Under reverse factoring agreements, suppliers' claims against Zalando totaling EUR 282.3m were transferred to various factors as of December 31, 2016 (December 31, 2015: EUR 170.9m); thereof EUR 216.1m (prior year: EUR 150.0m) transferred to banks.

Liabilities to affiliates amount to EUR 49.5m (prior year: EUR 3.0m) as of the reporting date. These mainly relate to outstanding payments for capital increases (EUR 36.0m; prior year: EUR 0m) and trade payables (EUR 13.5m; prior year: EUR 3m).

Other liabilities of EUR 97.1m (prior year. EUR 83.2m) relate mainly to VAT liabilities and debtors with credit balances.

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.

RESTRICTIONS ON DISTRIBUTION PURSUANT TO SEC. 268 (8) HGB

If adequate reserves are not freely available, the recognition of internally generated intangible assets gives rise, after deducting the deferred tax liabilities recognized thereon, to a restricted amount of EUR 40.2m (prior year: EUR 22.9m). Net deferred tax assets (deferred tax assets in excess of deferred tax liabilities) increase this amount by EUR 22.1m (prior year: EUR 55.7m).

CONTINGENT LIABILITIES AS DEFINED BY SEC. 251 HGB

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

CONTINGENT LIABILITIES → 09

IN EUR M	DEC 31, 2016	DEC 31, 2015
Contingent liabilities from rental guarantees thereof to affiliates	25.8 (25.8)	25.4 (25.4)
Joint loan liabilities thereof to affiliates	14.4 (14.4)	17.6 (17.6)
Contingent liabilities from payment guarantees thereof to affiliates	6.0 (6.0)	0.0 (0.0)
Contingent liabilities from credit guarantees thereof to affiliates	2.5 (2.5)	0.0 (0.0)
	48.7	**43.0**

Furthermore, ZALANDO SE has entered into obligations towards Goodmann Cinnamon Logistics (Lux) S.à.r.l, Luxembourg, Goodmann Boysenberry Logistics (Lux) S.à.r.l, Luxembourg, and Goodmann Tumbleweed Logistics (Lux) S.à.r.l, Luxembourg, to provide Zalando Logistics SE & Co. KG, Brieselang, Zalando Logistics Mönchengladbach SE & Co. KG, Mönchengladbach and Zalando Logistics Süd SE & Co. KG, Berlin, with financial resources so that they are in a position at all times to settle their liabilities from rental agreements for fulfillment space in Erfurt, Mönchengladbach and Lahr.

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 SEC. 285 NO. 3A HGB

There were other financial obligations of EUR 70.8m (prior year: EUR 64.0m) (thereof to affiliates: EUR 0.0m (as in the prior year)) as of the reporting date.

These obligations relate to the following items:

OTHER FINANCIAL OBLIGATIONS → 10

IN EUR M	
Rental agreements	69.5
Lease agreements	1.3
Total	**70.8**

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 2017 spring/summer season as of the reporting date.

DERIVATIVE FINANCIAL INSTRUMENTS

As of the reporting date, forward exchange contracts totaled EUR 1,104.4m (prior year: EUR 295.5m), some of which displayed a positive market value of EUR 6.4m (prior year: EUR 3.8m) while others displayed a negative market value of EUR 8.6m (prior year: EUR 0.7m).

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 44.3m (prior year: EUR 14.0m) with forward exchange contracts totaling EUR 44.3m (prior year: EUR 14.0m) (positive market value: EUR 0.9m (prior year: EUR 0.0m), negative market value: EUR 0.3m (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 liabilities.

The net method was used to combine orders obtained for goods in USD and GBP with a volume of EUR 162.8m (prior year: EUR 4.5m) with forward exchange contracts totaling EUR 162.8m (prior year: EUR 4.5m) (positive market value: EUR 4.1m (prior year: EUR 0.0m), negative market value: EUR 1.1m (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.

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 11.3m (prior year: EUR 21.0m) with forward exchange contracts totaling EUR 11.3m (positive market value: EUR 0.1m (prior year: EUR 0.8m); negative market value: EUR 0.2m (prior year: EUR 0.1m)) 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 885.9m (prior year: EUR 256.0m) with forward exchange contracts totaling EUR 885.9m (prior year: EUR 256.0m) (positive market value: EUR 1.2m (prior year: EUR 3.0m); negative market value: EUR 7.1m (prior year: EUR 0.7m)) 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.

03.1.4 NOTES TO THE INCOME STATEMENT

REVENUE

In fiscal year 2016, around 53% of revenue related to the region Germany/Austria/Switzerland (DACH) (see following table).

REVENUE BY SEGMENT → 11

IN EUR M	2016		2015		Change
DACH*	1,952.0	53.5%	1,665.6	56.5%	286.4
Rest of Europe**	1,698.7	46.5%	1,285.2	43.5%	413.5
ZALANDO SE	**3,650.7**	**100%**	**2,950.8**	**100%**	**699.9**

*) As in fiscal year 2015, DACH countries include Germany, Austria and Switzerland
**) As in fiscal year 2015, 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 3,526.9m) and the provision of services (EUR 123.8m). Due to the first time adoption of BilRUG revenue comprises income of EUR 44.1m (prior year: EUR 38.2m) mainly from intercompany charges. In the prior year this income was reported under other income. Including the income from intercompany charges, prior year revenue totals EUR 2.989,0m.

INCOME RELATING TO OTHER PERIODS

Other income comprises income relating to other periods of EUR 22.3m (prior year: EUR 5.5m) mainly from the reversal of provisions. Other expenses comprise expenses relating to other periods of EUR 1.2m (prior year: EUR 1.2m) mainly from amendments of VAT for previous years.

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 2016 in Germany was 15.8%. The applicable trade tax rate was 14.8% as in the prior year.

Current and deferred taxes are presented in the following table.

CURRENT AND DEFERRED TAXES → 12

IN EUR M	JAN 1 – DEC 31, 2016	JAN 1 – DEC 31, 2015
Deferred taxes	–41.8	48.3
Current taxes	–23.9	–12.1
Total	**–65.7**	**36.2**

03.1.5 OTHER NOTES

NUMBER OF EMPLOYEES

An annual average of 3,523 (prior year: 3,019) persons were employed by the Company in the fiscal year:

AVERAGE NUMBER OF EMPLOYEES → 13

Commercial	1,162
Technology	1,279
Others	1,082
Total	**3,523**

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 (Sec. 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 Sec. 285 No. 17 last clause HGB. They are disclosed in the consolidated financial statements of ZALANDO SE.

SUBSEQUENT EVENTS

No significant events occurred after the reporting date which could materially affect the presentation of the financial performance and position of the company.

MEMBERS OF THE SUPERVISORY BOARD

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

MEMBERS OF THE SUPERVISORY BOARD → 14

Supervisory Board	Profession	Supervisory Board member since
Lothar Lanz (Chairperson of the Supervisory Board)	Supervisory Board member, in particular Axel Springer SE, Berlin	February 10, 2014
Lorenzo Grabau (Vice Chairperson)	CEO of Investment AB Kinnevik, Stockholm, Sweden	December 12, 2013
Anders Holch Povlsen	CEO of Bestseller A / S, Brande, Denmark	December 12, 2013
Kai-Uwe Ricke	Entrepreneur	June 3, 2014
Alexander Samwer	Entrepreneur and founder	December 12, 2013
Konrad Schäfers	Employee of ZALANDO SE, Berlin	June 2, 2015
Dylan Ross	Employee of ZALANDO SE, Berlin	June 2, 2015
Beate Siert	Employee of ZALANDO SE, Berlin	June 2, 2015
Jørgen Madsen Lindemann	President & CEO of Modern Times Group MTG AB, Stockholm, Sweden	May 31, 2016

The term of office of Cristina Stenbeck expired on May 31, 2016.

The remuneration of the 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 2016 (prior year: EUR 0.6m). 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.

CURRENT AND PAST SEATS → 15

Name of Supervisory Board member	Mandates pursuant to Sec. 125 (1) Sentence 5 AktG
Lorenzo Grabau	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)
	Global Fashion Holding S.A., Luxembourg (member of the Board of Directors, Chairman, until December 2016)
	Rocket Internet SE, Berlin (member of the Supervisory Board, until June 2016)
	Lazada Group S.A., Luxembourg (member of the Board of Directors, Chairman, until April 2016)
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)
	Kinnevik AB (member of the Board of Directors)
	TAG Immobilien AG (member of the Supervisory Board, Chairman)
Jørgen Madsen Lindemann*	Turtle Entertainment GmbH, Cologne (member of the Supervisory Board)

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Name of Supervisory Board member	**Mandates pursuant to Sec. 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 for affiliates:* United Internet Ventures AG, Montabaur (member of the Supervisory Board) 1&1 Internet AG, Montabaur (member of the Supervisory Board) 1&1 Telecommunication SE, Montabaur (member of the Supervisory Board, Vice Chairperson) 1&1 Mail & Media Applications SE, Montabaur (member of the Supervisory Board, Vice Chairperson) EUN Holdings LLP, Delaware (member of the Board of Directors, since October 2016) euNetworks Group Ltd. Singapore (Board of Directors) Delta Partners, Dubai (member of the Board of Directors, Chairman) SUSI Partners AG, Switzerland (member of the Board of Directors, Chairman) Virgin Mobile CEE, The Netherlands (member of the Board of Directors)
Alexander Samwer	Home 24 AG, Germany
Beate Siert	–
Dylan Ross	–
Konrad Schäfers	–
Christina Stenbeck (Chairman until May 2016)	Kinnevik AB, Schweden (member of the Board of Directors, Chairman until May 2016) Millicom International Cellular, Luxemburg (member of the Board of Directors, Chairman until May 2016) Verdere SARL, Luxemburg (member of the Board of Directors, Chairman)

*) Mr. Lindemann is also member of Boards of Directors at various foreign group entities of the Modern Times Group MTG.
**) 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:

MEMBERS OF THE MANAGEMENT BOARD → 17

Management Board	Profession
Robert Gentz	Management Board member
David Schneider	Management Board member
Rubin Ritter	Management Board member

The Management Board is also member of an executive body at the following companies:

CURENT AND PAST SEATS OF THE MANAGEMENT BOARD → 18

Name of Management Board member	Mandates pursuant to Sec. 125 (1) Sentence 5 AktG
David Schneider	Anatwine Ltd., UK (member of the Board of Directors) Trivago N.V., Germany (member of the Supervisory Board, since December 2016)
Robert Gentz	–
Rubin Ritter	–

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

Total remuneration of the Management Board totaled EUR 0.6m in fiscal year 2016 (prior year: EUR 0.7m). No new options were granted to the Management Board in fiscal year 2016 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 Supervisory Board and the Management Board propose that the unappropriated profit for 2016 of EUR 25,323,394.06 will be fully carried forward.

CORPORATE GOVERNANCE DECLARATION

The declaration of the Management Board and Supervisory Board on the German Corporate Governance Code pursuant to Sec. 161 AktG from December 2016 is published on the company's website (https://corporate.zalando.com/).

SIGNING OF THE 2016 FINANCIAL STATEMENTS

Berlin, February 24, 2017

The Management Board

Robert Gentz David Schneider Rubin Ritter

03.3 ATTACHMENT A TO THE NOTES

STATEMENT OF CHANGES IN FIXED ASSETS FOR FISCAL YEAR 2016

IN EUR M	Acquisition and production cost				
	JAN 1, 2016	Additions	Disposals	Reclassifications	DEC 31, 2016
Intangible assets					
Internally generated software	49.3	13.0	7.9	7.8	62.2
Industrial rights, similar rights and assets and licenses in such rights and assets	24.1	6.0	0.0	0.0	30.1
Prepayments and internally generated software under development	9.8	34.8	1.1	-7.8	35.7
	83.2	*53.8*	*9.0*	*0.0*	*128.0*
Property, plant and equipment					
Buildings on third-party land	0.2	0.0	0.0	0.0	0.2
Plant and machinery	0.5	2.2	0.0	0.0	2.7
Other equipment, furniture and fixtures	32.9	11.9	1.5	0.1	43.4
Prepayments and assets under construction	0.3	0.8	0.0	-0.1	1.0
	33.9	*14.9*	*1.5*	*0.0*	*47.3*
Financial assets					
Shares in affiliates	137.6	208.5	0.0	0.0	346.1
Equity investments	9.4	11.5	0.0	0.0	21.0
	147.0	*220.0*	*0.0*	*0.0*	*367.1*
	264.1	**288.7**	**10.5**	**0.0**	**542.4**

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Accumulated amortization, depreciation and write-downs				Carrying amounts	
JAN 1, 2016	**Additions**	**Disposals**	**DEC 31, 2016**	**DEC 31, 2016**	**DEC 31, 2015**
26.9	14.9	3.8	38.0	24.2	22.4
16.1	4.1	0.0	20.2	9.9	8.0
0.0	0.0	0.0	0.0	35.7	9.8
43.0	*19.0*	*3.8*	*58.2*	*69.8*	*40.2*
0.2	0.0	0.0	0.2	0.0	0.0
0.1	0.3	0.0	0.4	2.3	0.4
15.2	7.6	1.1	21.7	21.7	17.7
0.0	0.0	0.0	0.0	1.0	0.3
15.5	*7.9*	*1.1*	*22.3*	*25.0*	*18.4*
0.1	0.0	0.0	0.1	346.0	137.5
0.0	0.0	0.0	0.0	21.0	9.4
0.1	*0.0*	*0.0*	*0.1*	*367.0*	*146.9*
58.6	**27.0**	**4.9**	**80.6**	**461.8**	**205.5**

03.4 ATTACHMENT B TO THE NOTES

DISCLOSURES PURSUANT TO SEC. 160 (1) NO. 8 AKTG ["AKTIENGESETZ": GERMAN STOCK CORPORATION ACT]

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

Baillie Gifford & Co., Edinburgh, UK, informed us pursuant to Sec. 21 (1) WpHG that its share of voting rights in ZALANDO SE, Berlin, Germany, had exceeded the threshold of 5% of the voting rights on February 2, 2016, amounting to 5.01% (12,374,090 voting rights) on this date, with 5.01% of the voting rights (12,374,090 voting rights) allocated to the company pursuant to Sec. 22 WpHG. Complete ownership chain of subsidiaries beginning with the person/entity ultimately controlling the group was stated as follows: Baillie Gifford & Co., Baillie Gifford Overseas Limited (3.68% of the voting rights).

In addition to this, Baillie Gifford & Co., Edinburgh, UK, informed us pursuant to Sec. 21 (1) WpHG that due to the acquisition/sale of shares with voting rights and due to the voluntary group announcement of the threshold being reached at the level of subsidiaries that its share of voting rights amounted to 6.87% (16,973,478 voting rights) on June 13, 2016, with 6.87% of the voting rights (16,973,478 voting rights) allocated to the company pursuant to Sec. 22 WpHG. Complete ownership chain of subsidiaries beginning with the person/entity ultimately controlling the group was stated as follows: Baillie Gifford & Co., Baillie Gifford Overseas Limited (5.02% of the voting rights).

Zerena GmbH (i. Gr.), Grünwald, Germany, informed us pursuant to Sec. 21 (1) WpHG that its share of voting rights in ZALANDO SE, Berlin, Germany, had exceeded the threshold of 5% of the voting rights on May 18, 2016, amounting to 8.77% (21,677,545 voting rights) on this date, with 8.77% of the voting rights (21,677,545 voting rights) allocated to the company pursuant to Sec. 22 WpHG. Complete ownership chain of subsidiaries beginning with the person/entity ultimately controlling the group was stated as follows: Zerena GmbH (i. Gr.), Rocata GmbH, Global Founders GmbH (8.32% of the voting rights), Rocket Internet SE.

Rocata GmbH, Grünwald, Germany, informed us pursuant to Sec. 21 (1) WpHG that its share of voting rights in ZALANDO SE, Berlin, Germany, had exceeded the threshold of 5% of the voting rights on May 2, 2016, amounting to 8.77% (21,677,545 voting rights) on this date, with 8.77% of the voting rights (21,677,545 voting rights) allocated to the company pursuant to Sec. 22 WpHG. Complete ownership chain of subsidiaries beginning with the person/entity ultimately controlling the group was stated as follows: Rocata GmbH, Global Founders GmbH (8.32%), Rocket Internet SE.

Global Founders GmbH, Grünwald, Germany, informed us pursuant to Sec. 21 (1) WpHG that 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 on November 20, 2015, amounting to 9.92% (24,477,678 voting rights) on this date, with Global Founders GmbH directly holding 9.41% (23,212,181 voting rights) and 0.51% (1,265,497 voting rights) allocated to Global Founders GmbH pursuant to Sec. 22 (1) Sentence 1 No. 1 WpHG.

Vanguard World Funds, Wilmington, Delaware, United States of America, informed us pursuant to Sec. 21 (1) WpHG that its share of voting rights in ZALANDO SE, Berlin, Germany, had exceeded the threshold of 3% of the voting rights on April 18, 2016, amounting to 3.03% (7,478,835 voting rights) on this date, with these voting rights (7,478,835 voting rights) being directly held by Vanguard World Funds pursuant to Sec. 21 WpHG.

Anders Holch Povlsen informed us pursuant to Sec. 21 (1) WpHG that his share of voting rights in ZALANDO SE, Berlin, Germany, had exceeded the threshold of 10% of the voting rights on March 16, 2016, amounting to 10.05% (24,827,078 voting rights) on this date, with 10.05% of the voting rights (24,827,078 voting rights) allocated to Mr. Povlsen pursuant to Sec. 22 WpHG. Complete ownership chain of subsidiaries beginning with the person/entity ultimately controlling the group was stated as follows: Anders Holch Povlsen, Aktieselskabet af 1.8.2007, Aktieselskabet af 1.8.2004, Bestseller United A/S, Bestseller A/S, Bestseller Commerce B.V., Bestseller Handels B.V (10.05% of the voting rights).

TEV Global Invest I GmbH, Mülheim an der Ruhr, Germany, informed us pursuant to Sec. 21 (1) WpHG that its share of voting rights in ZALANDO SE, Berlin, Germany, had fallen below the threshold of 5% of the voting rights on June 25, 2015, amounting to 4.996% (12,320,457 voting rights) on that date.

Tengelmann Ventures GmbH, Mülheim an der Ruhr, Germany, informed us pursuant to Sec. 21 (1) WpHG that its share of voting rights in ZALANDO SE, Berlin, Germany, had fallen below the threshold of 5% of the voting rights on June 25, 2015, amounting to 4.996% (12,320,457 voting rights) on this date, with 4.996% of the voting rights (12,320,457 voting rights) allocated to the company pursuant to Sec. 22 (1) Sentence 1 No. 1 WpHG. The voting rights allocated to it are held by the following controlled entities, whose voting shares in ZALANDO SE amount to 3% or more: TEV Global Invest I GmbH.

Tengelmann Ventures Management GmbH, Mülheim an der Ruhr, Germany, informed us pursuant to Sec. 21 (1) WpHG that its share of voting rights in ZALANDO SE, Berlin, Germany, had fallen below the threshold of 5% of the voting rights on June 25, 2015, amounting to 4.996% (12,320,457 voting rights) on this date, with 4.996% of the voting rights (12,320,457 voting rights) allocated to the company pursuant to Sec. 22 (1) Sentence 1 No. 1 WpHG. The voting rights allocated to it are held by the following controlled entities, whose voting shares in ZALANDO SE amount to 3% or more: TEV Global Invest I GmbH, Tengelmann Ventures GmbH.

Tengelmann Warenhandelsgesellschaft KG, Mülheim an der Ruhr, Germany, informed us pursuant to Sec. 21 (1) WpHG that its share of voting rights in ZALANDO SE, Berlin, Germany, had fallen below the threshold of 5% of the voting rights on June 25, 2015, amounting to 4.996% (12,320,457 voting rights) on this date, with 4.996% of the voting rights (12,320,457 voting rights) allocated to the company pursuant to Sec. 22 (1) Sentence 1 No. 1 WpHG. The voting rights allocated to it are held by the following controlled entities, whose voting shares in ZALANDO SE amount to 3% or more: TEV Global Invest I GmbH, Tengelmann Ventures GmbH, Tengelmann Ventures Management GmbH.

Tengelmann Verwaltungs- und Beteiligungs GmbH, Mülheim an der Ruhr, Germany, informed us pursuant to Sec. 21 (1) WpHG that its share of voting rights in ZALANDO SE, Berlin, Germany, had fallen below the threshold of 5% of the voting rights on June 25, 2015, amounting to 4.996%

(12,320,457 voting rights) on this date, with 4.996% of the voting rights (12,320,457 voting rights) allocated to the company pursuant to Sec. 22 (1) Sentence 1 No. 1 WpHG. The voting rights allocated to it are held by the following controlled entities, whose voting shares in ZALANDO SE amount to 3% or more: TEV Global Invest I GmbH, Tengelmann Ventures GmbH, Tengelmann Ventures Management GmbH, Tengelmann Warenhandelsgesellschaft KG.

Kinnevik Internet 1 AB, Stockholm, Sweden, informed us pursuant to Sec. 21 (1a) WpHG that its share of voting rights in ZALANDO SE amounted to 47.07% (115,216,310 voting rights) on September 30, 2014, the date on which the shares of ZALANDO SE were approved for trading on an organized market for the first time, with Kinnevik Internet 1 AB directly holding 32.04% (78,427,800 voting rights). Kinnevik Internet 1 AB was allocated 15.03% (36,788,510 voting rights) as of the date of the announcement pursuant to Sec. 22 (2) WpHG by the following shareholder, whose share of voting rights in ZALANDO SE amounts to 3% or more: Global Founders GmbH.

Kinnevik Online AB, Stockholm, Sweden, informed us pursuant to Sec. 21 (1a) WpHG that its share of voting rights in ZALANDO SE amounted to 47.07% (115,216,310 voting rights) on September 30, 2014, the date on which the shares of ZALANDO SE were approved for trading on an organized market for the first time, with Kinnevik Online AB allocated 32.04% (78,427,800 voting rights) pursuant to Sec. 22 (1) Sentence 1 No. 1 WpHG. The voting rights allocated to it are held by the following entity controlled by Kinnevik Online AB and whose share of voting rights in ZALANDO SE amounts to 3% or more: Kinnevik Internet 1 AB. Kinnevik Online AB was allocated 15.03% (36,788,510 voting rights) as of the date of the announcement pursuant to Sec. 22 (2) WpHG by the following shareholder, whose share of voting rights in ZALANDO SE amounts to 3% or more: Global Founders GmbH.

Investment AB Kinnevik, Stockholm, Sweden, informed us pursuant to Sec. 21 (1a) WpHG that its share of voting rights in ZALANDO SE amounted to 47.07% (115,216,310 voting rights) on September 30, 2014, the date on which the shares of ZALANDO SE were approved for trading on an organized market for the first time, with Investment AB Kinnevik allocated 32.04% (78,427,800 voting rights) pursuant to Sec. 22 (1) Sentence 1 No. 1 WpHG. The voting rights allocated to it are held by the following entities controlled by Investment AB Kinnevik and whose share of voting rights in ZALANDO SE amounts to 3% or more: Kinnevik Internet 1 AB, Kinnevik Online AB. Investment AB Kinnevik was allocated 15.03% (36,788,510 voting rights) as of the date of the announcement pursuant to Sec. 22 (2) WpHG by the following shareholder, whose share of voting rights in ZALANDO SE amounts to 3% or more: Global Founders GmbH.

Verdere S.à r.l., Luxembourg, Luxembourg, informed us pursuant to Sec. 21 (1a) WpHG that its share of voting rights in ZALANDO SE amounted to 47.07% (115,216,310 voting rights) on September 30, 2014, the date on which the shares of ZALANDO SE were approved for trading on an organized market for the first time, with Verdere S.à r.l. allocated 32.04% (78,427,800 voting rights) pursuant to Sec. 22 (1) Sentence 1 No. 1 WpHG. The voting rights allocated to it are held by the following entities controlled by Verdere S.à r.l. and whose share of voting rights in ZALANDO SE amounts to 3% or more: Kinnevik Internet 1 AB, Kinnevik Online AB, Investment AB Kinnevik. Verdere S.à r.l. was allocated 15.03% (36,788,510 voting rights) as of the date of the announcement pursuant to Sec. 22 (2) WpHG by the following shareholder, whose share of voting rights in ZALANDO SE amounts to 3% or more: Global Founders GmbH.

04 COMBINED MANAGEMENT REPORT

04.1 BACKGROUND TO THE GROUP

- Zalando is Europe's leading online platform for fashion
- ZALANDO SE and its 32 subsidiaries thus cover the entire supply chain of an online retailer
- Strategic investments to cement partnerships with customers and suppliers and in infrastructure
- Zalando expands fulfillment in Poland, France and Italy
- Sustainability is firmly anchored in the company's DNA

04.1.1 BUSINESS MODEL

Zalando is Europe's leading online fashion platform for women, men, and children. The Berlin-based company offers its customers a wide assortment of fashion articles including shoes, apparel, and accessories, with free delivery and returns.

Zalando cooperates with more than 1,500 international brands to offer an assortment ranging from popular global brands, fast-fashion, and local brands, and is completed by private label products. 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, Frankfurt, and Cologne opened between 2012 and 2016 and serve as additional sales channels for excess inventory. The parent company, ZALANDO SE, was founded in 2008 and has its registered offices in Berlin. Zalando's online offering is tailored to local customer needs in 15 different European markets: Austria, Belgium, Denmark, Finland, France, Germany, Italy, Luxembourg, the Netherlands, Norway, Poland, Spain, Sweden, Switzerland, and the United Kingdom. In each of these markets, our country-specific websites and mobile apps respond to the specific needs and preferences of our customers. A network of four fulfillment centers in Germany enables Zalando to serve its customers throughout Europe efficiently, completed by an additional fulfillment center currently being constructed in Poland, as well as two new satellite warehouses in Italy and France that will help to address the rising demand in online retail. Zalando increasingly benefits from economies of scale generated by its centralized management of sourcing, fulfillment, and technology divisions.

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 its ultimate parent company, ZALANDO SE, based in Berlin, Germany, which bundles all management functions and generates nearly 100% of group revenues. In addition to the parent company, Zalando comprises 32 subsidiaries that operate in the areas of fulfillment, customer service, product presentation, advertising, marketing, and in-house developed private labels for ZALANDO SE. ZALANDO SE and its subsidiaries represent 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 comprises three members, who are responsible for the group's strategy and management. Rubin Ritter is responsible for sales, operations, 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 Supervisory Board represents long-term investors, employees, and independent experts. The remuneration of the Management Board and the Supervisory Board, as well as the incentive and bonus schemes are detailed in the remuneration report. The remuneration report and takeover disclosures pursuant to Secs. 289 (4) and 315 (4) HGB, 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 primarily based on a sales channel-related perspective. The Management Board monitors the development of the business for the main sales channel Zalando shop by breaking it down geographically into the DACH regions (Germany, Austria and Switzerland) and Rest of Europe. All other sales channels are grouped under the Other segment, which mainly comprises revenues generated by the Zalando Lounge and outlet sales channels and the new platform initiatives.

04.1.3 STRATEGY AND OBJECTIVES OF THE GROUP

Zalando is Europe's leading online platform for fashion. Around 12,000 employees are committed to fulfilling and exceeding customer expectations. The company provides a fashion platform for almost 20 million active customers in 15 countries and is a key retail channel for over 1,500 brand partners.

Zalando's successful development in recent years evidences the strength of its business model, which has consistently delivered against its performance objectives. The group aims to generate profitable revenue growth in a range of 20% – 25% in 2017, by further expanding its market share in the European online fashion industry.

The company establishes itself as a meeting place bringing customers and fashion together. On this platform, Zalando creates value for all participants by further developing its operational and technological infrastructure. Zalando's vision is to expand its platform to be the key operating system of the fashion world by introducing multiple ways of integrating a diverse group of fashion contributors and stakeholders, catering to their specific needs. It offers digital and infrastructure services such as analytics, advertising, and fulfillment. Participants include customers, brands/merchants, and intermediaries (e.g. fashion stylists, content creators, logistics, and service providers). Its platform approach will help Zalando deliver attributes that are highly valued by consumers, at scale and with the right cost structure, such as incremental selection and inspirational content, incremental delivery methods, incremental services, and access to fashion expertise. The company expects these attributes to trigger reinforcing growth dynamics and further unlock Zalando's growth and development potential. Improved merchandise selection and availability for example, feeds growth of Zalando's consumer reach and vice versa. For brand partners, access to this unprecedented consumer reach presents a huge benefit and commercial opportunity as they leverage our platform infrastructure.

Zalando's focus on technology forms the foundation for the fashion platform. It handles the increasing diversity and complexity of the platform as more partners and products join. Zalando actively addresses any challenges facing its fashion partners and provides solutions. The Zalando shop and its mobile applications provide an ever-increasing customer reach while simultaneously providing a wealth of information on user behavior and customer buying patterns. These analyses allow our partners to better address their target markets with relevant product offerings and advertising. Zalando aims to win partners, who are as diverse as possible to enrich its platform and combine them in an intelligent manner with the help of its technological expertise to create the most appealing customer offering in the market place.

Zalando's management defined three strategic investment areas for 2017.

INVESTMENT IN CONSUMER PROPOSITION

Zalando will continue investing in four key consumer propositions to strengthen its positioning as the most fashion competent destination – assortment, convenience, brand, and mobile.

INVESTMENT IN SUPPLIER PROPOSITION

To maintain the position as fashion suppliers' preferred e-commerce partner, Zalando will continue investing in the areas of wholesale solutions, partner program, digital services, and fulfillment services.

INVESTMENT IN INFRASTRUCTURE

Zalando's supporting investment in technology and operations infrastructure provide the strong foundation on which the group offers compelling consumer and supplier propositions.

Zalando will continue to focus on growing its market share and thereby leveraging the continued growth dynamics of linking consumer reach and providing an industry-leading infrastructure. For consumers, Zalando will continue to be, more than ever, the top-of-mind destination to seek fashion inspiration, advice, and discover fashion products.

Detailed information regarding our strategy are provided in the separate Section 01.3 Corporate Strategy.

04.1.4 CORPORATE RESPONSIBILITY

In the face of global challenges like resource scarcity, climate change, and increasing inequality, we see a pressing urgency to reimagine fashion in a way that benefits all stakeholders involved in the fashion ecosystem. We believe that we can use our expertise in fashion, technology, and operations to make a substantial contribution to a more transparent and sustainable fashion industry.

To approach this goal in a targeted way, we developed and implemented our corporate responsibility (CR) strategy called the do.STRATEGY. The name of the strategy reflects the same philosophy we have implemented in all parts of our business. We have a bias for action. The do. is part of our DNA. Consequently, this is how we approach sustainability, too. The foundation of the do.STRATEGY focuses on five areas defined by the materiality analysis we conducted in 2014 and 2015 by consulting 5,000 customers and 1,200 employees on topics where we potentially have the biggest positive and negative impact. Furthermore, we organized internal workshops across all hierarchies and functions that aimed at finding those topics that are or will be crucial for our business model. The input received from these key stakeholder groups resulted in a list of 16 material topics in five different focus areas. We see it as a promise to our customers and partners, but also as a commitment to all other stakeholders we are connected with. In striving towards our company purpose, we want to leverage the commitment of our employees by empowering them to do their bit for a better fashion industry and a better society in general.

Additional information regarding our sustainability strategy, management and engagement are provided in the separate Section 01.4 Corporate Responsibility.[1]

04.1.5 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.

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

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 8.5 percentage points in 2016, rising from 57.1 in 2015 to 65.6.
- **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 2 million, rising from 17.9 million to 19.9 million in 2016.
- **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 2016, the number of orders placed increased from 55.3 million in 2015 to 69.2 million.
- **Average number of orders per active customer:** The average number of orders placed by active customers during the last twelve months totaled 3.5 as of December 31, 2016 (prior year: 3.1).
- **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 average basket size slightly decreased in fiscal year 2016 from EUR 67.8 to EUR 66.6.

04.1.6 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 2016 included fashion store technical enhancements, Checkout Rebuild, Order Management Service, Merchant Inventory, A/B Testing & Personalization Service, Same Day Delivery, Fulfilment by Zalando, Ramp-up fulfillment centers Lahr and Stradella, Zalon Apps, and many more.

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, Smart Logistics, Payments, Brand Solutions, etc.

In 2016, the group recognized development costs of EUR 57.7m (prior year: EUR 23.1m), of which EUR 36.4m relate to prepayments (prior year: EUR 9.2m). The increase in development costs is attributable to the enhancement of the above-mentioned software and new technical projects.

Research costs were immaterial.

04.2 REPORT ON ECONOMIC POSITION

- European internet retailing and online fashion sales once again grow considerably more strongly than the economy as a whole
- For Zalando, the fiscal year 2016 was highly successful and nearly all key indicators have improved
- All segments contribute to the 23.0% growth in revenue to EUR 3,639m
- EBIT rose from EUR 89.6 m to EUR 207.0 m, the EBIT margin improved from 3.0% to 5.7%
- Cash flow from operating activities more than doubled to EUR 275.8m

04.2.1 MACROECONOMIC AND SECTOR-SPECIFIC ENVIRONMENT

The mega-trend towards online shopping continued in 2016: The European online retail sector[2] rose by 13.6% in 2016, outperforming the general retail industry which grew by only 2.6%. The European fashion retail sector[3] closed the year with a trading volume of around EUR 425bn, up by 0.9% nominally, while the online fashion market rose by 9.1% to EUR 51bn, compared to the prior year.

The German market posted figures consistent with the European landscape, with the overall retail industry[4] growing at 2.5% while online retail sales rose by 11.6% in 2016. Trading volumes declined by 0.2% in 2016 after a number of years of stagnant growth, reflecting adverse weather conditions: A mild January and a cold March, moving into a rainy summer and warm fall was only partly alleviated by increasing sales in the fourth quarter[5]. Nevertheless, online fashion retailer increased sales by 7.4% in 2016, to a market value of around EUR 12.3bn[6].

We believe our business model will continue to benefit from the positive outlook for European fashion and online retail.

- Technological advancements are the key drivers behind the second wave of e-commerce that will spur further growth of the online fashion business. The market share of internet fashion retail is expected to continue to grow at the expense of traditional brick-and-mortar retailers.
- Europe remains a very attractive fashion market with a high concentration of affluent customers. In our major markets in Western Europe[7], per capita spending on fashion amounted to EUR 780 in 2016, more than anywhere else in the world. Coupled with high population density, Western Europe leads with the highest spending per square kilometer on fashion, estimated at EUR 88.1k, compared to EUR 15.5k worldwide. Spending per square kilometer is an important indicator for online retailers, as it allows for faster delivery, at lower cost.
- Average gross margins for online fashion retailers range between 40% and 60%[8], considerably more attractive than average margins in other online product categories, such as electronics.

2) Euromonitor, Europe excl. Russia
3) Euromonitor, Europe excl. Russia
4) Euromonitor, Germany
5) Textilwirtschaft
6) Euromonitor, Germany
7) Euromonitor, Europe excl. Russia
8) Company information, average gross margins of selected publicly listed e-commerce companies in 2014 including Asos, Yoox and Boohoo based on publicly available information.

— The increased penetration of mobile devices and their extended range of applications have been a key driver for the strong growth in online retail trade, including online fashion. Smartphones and tablets provide access anytime and nearly anywhere, and consumers increasingly use these devices to shop for fashion. Forecasts for mobile commerce[9] illustrate that this trend is likely to continue, expecting an average annual growth rate of roughly 15.3% for the next five years.

04.2.2 BUSINESS DEVELOPMENT

ZALANDO SE, Europe's leading online platform for fashion, looks back on a successful business performance in fiscal year 2016. Compared to 2015, the group reported 23.0% revenue growth in the period to EUR 3,639m (prior year: EUR 2,958m). All segments contributed to revenue growth: Revenues in the DACH region increased by 14.8%, in Rest of Europe by 29.6% and the Other segment by 53.2%. Zalando continued to gain market share in all its markets. Zalando's performance goes from strength to strength, building a solid and consistent track record since its IPO in 2014.

Apparel remained Zalando's single biggest product category, followed by shoes and accessories. The customer base continued to grow strongly, reaching 19.9 million active customers at the end of 2016 (17.9 million on December 31, 2015).

As in previous years, Zalando put customer satisfaction as its main objective and invested significantly in its customer proposition, including mobile, brand, assortment, and convenience. Investment in infrastructure underpins Zalando's strength in technology and operations and enables the expansion of its platform strategy. Zalando's operational structure provides the best fulfillment experience for online fashion in Europe. In 2016, the company successfully launched a satellite warehouse in Italy. It already fulfills nearly 70% of orders for our Italian customers and significantly improved our customer proposition. Its success encouraged management to build another satellite warehouse close to Paris, France, which will start operations in the first quarter of 2017. In addition, there are plans for a third one, in Sweden, to be built in 2017 and further improve the Zalando experience for our customers in the Scandinavian markets. These facilities are operated by a third-party service provider. Construction of a large-scale (130,000m^2) fulfillment center close to Szczecin, Poland, announced earlier in 2016, is expected to be completed in fall 2017.

Well over 1,000 individual brands have found a home at Zalando. Our technology provides the tools for the brands to design and control the content of their shops and obtain feedback and insights from their customers. Zalando has a team of over 1,600 dedicated technology engineers who develop and drive all critical processes in-house. Amongst other achievements, this allowed Zalando to significantly improve its mobile offering and to win the renowned Editor's Choice Award from Google Play for its Android App. An impressive 65.6% of visits to the Zalando online shop were conducted from a mobile device and the app was downloaded more than 28 million times in 2016.

Zalando's vision to connect people with fashion and give consumers better access to the fashion world was brought to life by turning Berlin's famous Bread&Butter fashion trade show into a consumer facing trend event that was open to the public, digitalized, and focused on new trends

9) Euromonitor, Western Europe

and ideas in September 2016. Staged in September 2016, it created an innovative platform where brands shared their stories and collection, offering fashion for all, with most items instantly available to buy. The Bread&Butter fashion event was sold out, attracted more than 20,000 visitors and showcased the Zalando brand in the best possible way, with more than 800 million impressions across all media and social media channels. Highlights included the presentation by Gigi Hadid of her co-created Tommy Hilfiger's Tommy X Gigi collection, and the introduction of Marni's exclusive shoe collection for Zalando.

Throughout the year, other notable additions to Zalando's brand portfolio included Fenty by Rihanna, Club Monaco, Ivyrevel, and Kate Spade. The Zalando brand raised its visibility and reach, supported for example by joint campaigns such as Ivy Park. The number of available items increased to approximately 200,000, further enriching the breadth and depth of Zalando's well-curated offering.

In 2016, Zalando started a pilot with international brand partner adidas to connect adidas' Berlin-based performance store to its platform so that the shop's merchandise is available to order from Zalando's website. This strategic partnership opens the door for Zalando's vision of an integrated platform that responds even faster and better to consumer expectations and their preference for a single point of contact that provides access to all fashion items, irrespective of their physical location.

Employee numbers increased by about 20%, strongly driven by the headcount increase in Technology to more than 1,600 engineers, based not only in Berlin, but across Europe in six further locations.

In order to align employees' interests even more with the long-term strategic goals of the company, Zalando offers several employee participation programs. Management strongly encourages an outspoken and direct feedback culture, further strengthened by the implementation of a 360-degree performance review system.

The Zalando share is listed in numerous important domestic and foreign indices. These include the German MDAX, the broader European STOXX Europe 600 Index, and the German Entrepreneurial Index GEX. The Zalando share was also listed in relevant industry indices such as the STOXX Europe 600 Retail Index, and the Deutsche Börse Prime Retail Performance Index. The Zalando share closed 2016 at EUR 36.13.

04.2.3 ECONOMIC SITUATION

FINANCIAL PERFORMANCE OF THE GROUP

The consolidated income statement for 2016 shows ongoing strong revenue growth and substantial improvement of profitability. This was driven by our focus on growing our business and market share by offering the best possible customer experience, while we continued to invest in our business and its platform initiatives.

CONSOLIDATED INCOME STATEMENT → 20

IN EUR M	JAN 1 – DEC 31, 2016	As % of revenue	JAN 1 – DEC 31, 2015	As % of revenue	Change
Revenue	3,639.0	100.0%	2,958.2	100.0%	0.0pp
Cost of sales	–2,029.6	–55.8%	–1,624.0	–54.9%	–0.9pp
Gross profit	**1,609.4**	**44.2%**	**1,334.1**	**45.1%**	**–0.9pp**
Selling and distribution costs	–1,223.7	–33.6%	–1,118.9	–37.8%	4.2pp
Administrative expenses	–191.3	–5.3%	–129.0	–4.4%	–0.9pp
Other operating income	16.7	0.5%	10.2	0.3%	0.1pp
Other operating expenses	–4.1	–0.1%	–7.0	–0.2%	0.1pp
Earnings before interest and taxes (EBIT)	**207.0**	**5.7%**	**89.6**	**3.0%**	**2.7pp**

OTHER CONSOLIDATED FINANCIAL INFORMATION → 21

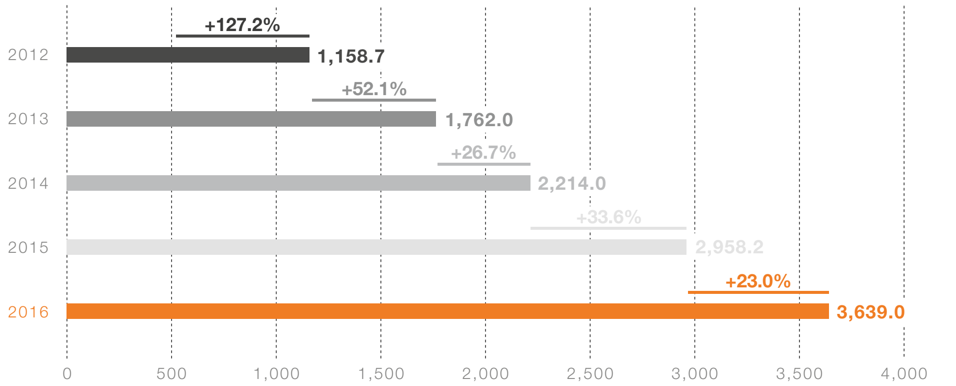
IN EUR M	JAN 1 – DEC 31, 2016	JAN 1 – DEC 31, 2015	Change
EBIT margin (as % of revenue)	5.7%	3.0%	2.7pp
Adjusted EBIT (excl. equity-settled share-based payments and non-operating one-time effects)	216.3	107.5	108.8
Adjusted EBIT margin (as % of revenue)	5.9%	3.6%	2.3pp
EBITDA	255.3	123.8	131.5
Adjusted EBITDA (excl. equity-settled share-based payments and non-operating one-time effects)	264.5	141.7	122.8

DEVELOPMENT OF REVENUE

ANNUAL REVENUE GROWTH (2012 – 2016)

→ 01

IN EUR M

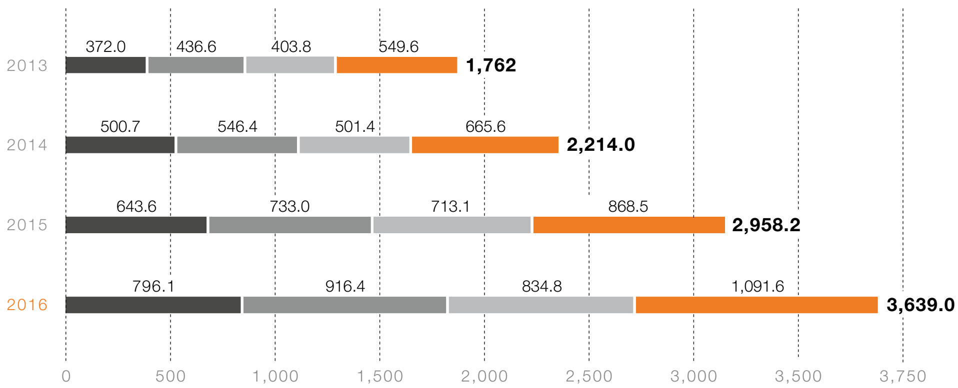


In 2016, Zalando increased its revenue by EUR 680.8m or 23% from EUR 2,958.2m to EUR 3,639.0m.

REVENUE BY QUARTER (2013 – 2016)

→ 02

IN EUR M



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 in 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 1,091.6m, group revenue in the fourth quarter was up 25.7% on the comparable period of the prior year (Q4 2015: EUR 868.5m). It was the first time that Zalando broke the one billion-euro barrier in a single quarter, a clear result of our customer focus.

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

KEY PERFORMANCE INDICATORS → 22

KEY PERFORMANCE INDICATORS*	JAN 1 – DEC 31, 2016	JAN 1 – DEC 31, 2015	Change
Site visits (in millions)	1,991.6	1,656.4	20.2%
Mobile visit share (as % of site visits)	65.6	57.1	8.5pp
Active customers (in millions)	19.9	17.9	10.9%
Number of orders (in millions)	69.2	55.3	25.2%
Average orders per active customer	3.5	3.1	12.9%
Average basket size (in EUR)	66.6	67.8	–1.8%
Revenue (in EUR m)	3,639.0	2,958.2	23.0%
Adjusted fulfillment cost ratio (as % of revenue)	23.2	25.8	–2.6pp
Adjusted marketing cost ratio (as % of revenue)	10.3	11.7	–1.4pp
Fulfillment cost ratio (as % of revenue)	23.3	25.9	–2.6pp
Marketing cost ratio (as % of revenue)	10.3	11.9	–1.6pp
EBIT (in EUR m)	207.0	89.6	> 100.0%
EBIT margin (as % of revenue)	5.7%	3.0%	2.7pp
Adjusted EBIT (in EUR m)	216.3	107.5	> 100.0%
EBITDA (in EUR m)	255.3	123.8	> 100.0%
Adjusted EBITDA (in EUR m)	264.5	141.7	86.7%
Net working capital (in EUR m)	–127.6	–2.6	> 100.0%
Operating cash flow (in EUR m)	275.8	119.4	> 100.0%

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

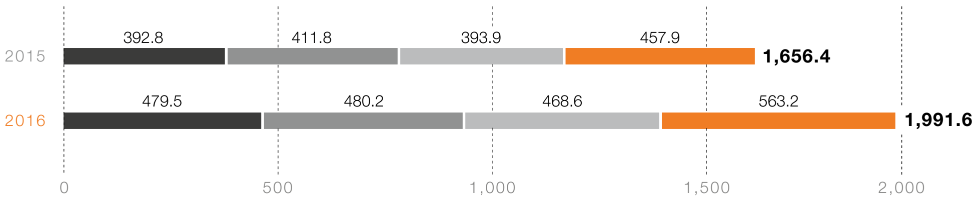
Zalando's most important performance indicators are revenue, EBIT, EBIT margin, adjusted EBIT margin, average basket size, as well as the number of orders. These are forecast for the fiscal year 2017 in Section 02.5 Outlook.

The rise in revenue is mainly attributable to a larger customer base and an increase in number of orders. As of December 31, 2016, the group had 19.9 million active customers. This corresponds to an increase of 10.9% compared to the prior year. The larger customer base ordered more frequently compared to the prior year with the average number of orders per active customers rising 12.9%. The higher number of customer orders, which increased by 25.2% was driven in particular by a 20.2% increase in site visits. The higher traffic on the website also relates to a significant increase in the share of visitors who access the website on mobile devices. Compared to the prior year, the share of site visits via mobile devices rose by 8.5 percentage points to 65.6% in 2016. The considerable rise in revenue was also driven by our continued focus on investing in the consumer and supplier proposition as well as in our technology and operations infrastructure.

SITE VISITS BY QUARTER (2015 – 2016)

→ 03

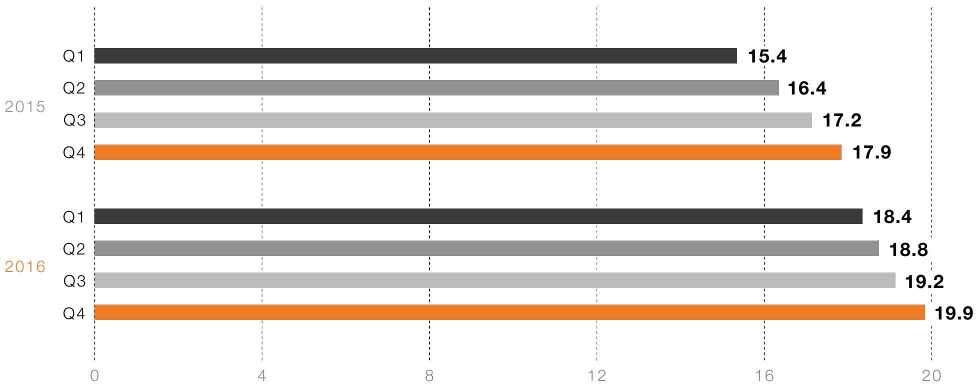
IN M



NUMBER OF ACTIVE CUSTOMERS BY QUARTER (2015 – 2016)

→ 04

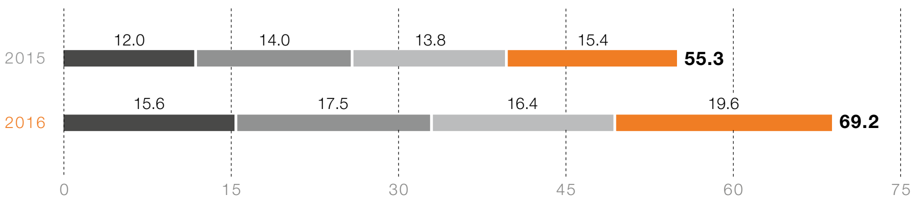
IN M



NUMBER OF ORDERS BY QUARTER (2015 – 2016)

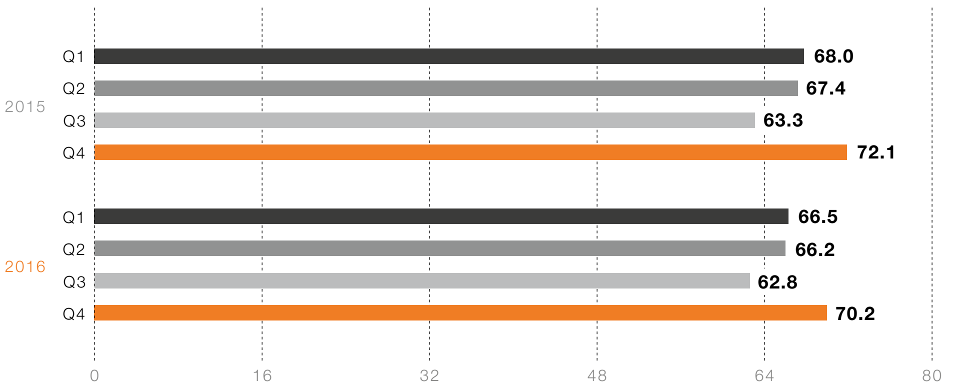
→ 05

IN M



AVERAGE BASKET SIZE BY QUARTER (2015 – 2016) → 06

IN EUR

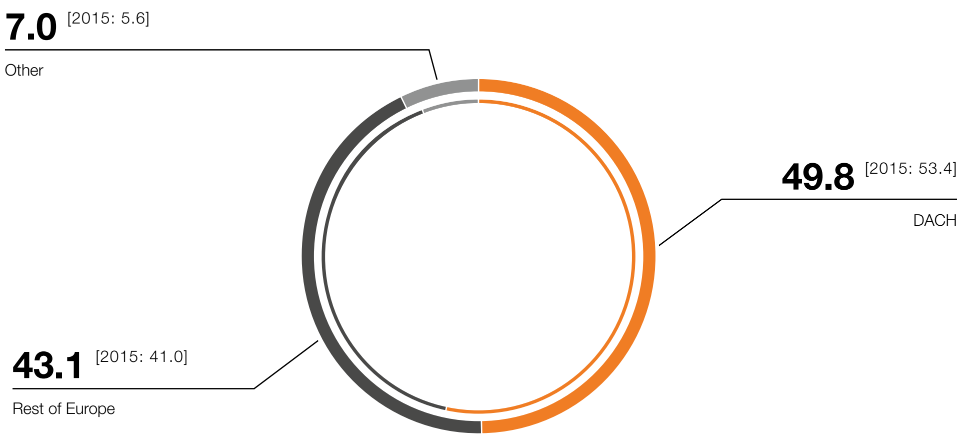


Zalando is profiting from a strong increase in active customers thanks to the larger assortment and the ease of mobile access to the offering. The close cooperation between Zalando and fast fashion brands, for example Ivy Park and Topshop, has helped raise the popularity of Zalando in the fashion sector.

Revenue by segment breaks down as follows:

REVENUE BY SEGMENT → 07

IN %



In fiscal year 2016, DACH countries generated around 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 DACH segment, revenue reached EUR 1,813.8m in 2016 (prior year: EUR 1,580.1m), equivalent to an increase of 14.8% compared with 2015.

The Rest of Europe segment generated revenue of EUR 1,570.2m in 2016 (prior year: EUR 1,211.6m). This corresponds to a 29.6% increase in revenue compared to 2015.

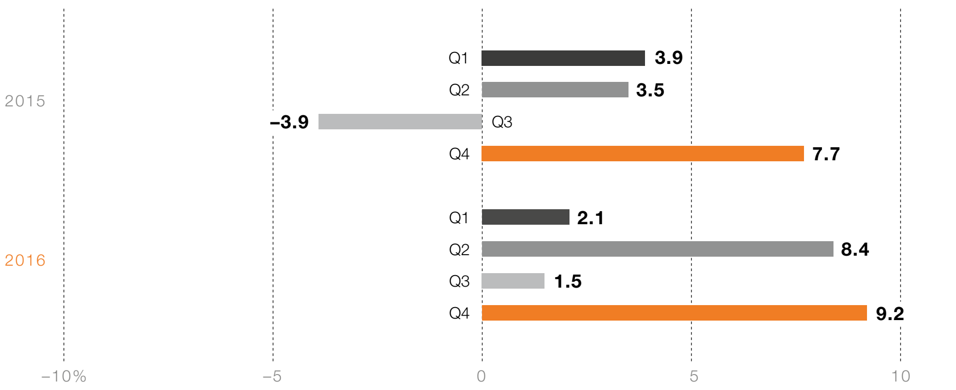
Revenue development was also supported by the Other segment, which mainly comprises the business activities of Zalando Lounge, Outlet sales channels, and projects derived from our platform initiatives.

DEVELOPMENT OF EBIT

The group recorded an EBIT of EUR 207.0m in 2016 (prior year: EUR 89.6m) which corresponds to an EBIT margin of 5.7% in 2016 (prior year: 3.0%) and represents an improvement of 2.7 percentage points. The strong EBIT margin is a result of a year-on-year improvement across major operating cost lines, especially the fulfillment cost ratio of 2.6 percentage points, as well as the marketing cost ratio of 1.6 percentage points.

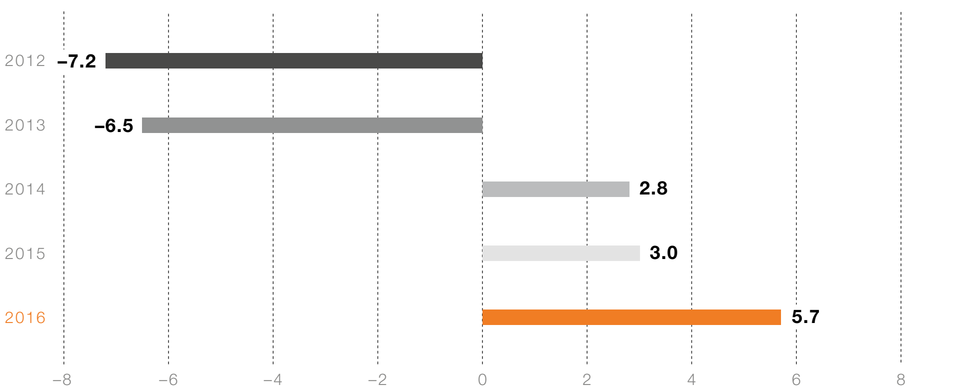
EBIT MARGIN BY QUARTER (2015 – 2016) → 08

IN %



YEARLY EBIT MARGIN (2012 – 2016) → 09

IN %

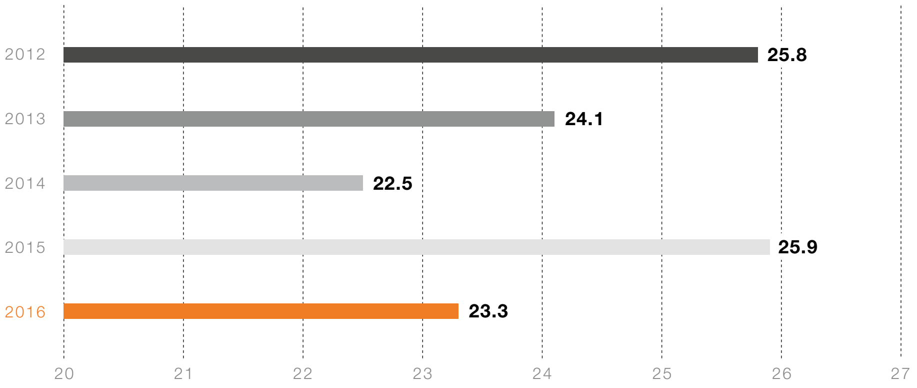


FIVE-YEAR SUMMARY OF COST ITEMS (NON-ADJUSTED)

FULFILLMENT COSTS (2012 – 2016)

→ 10

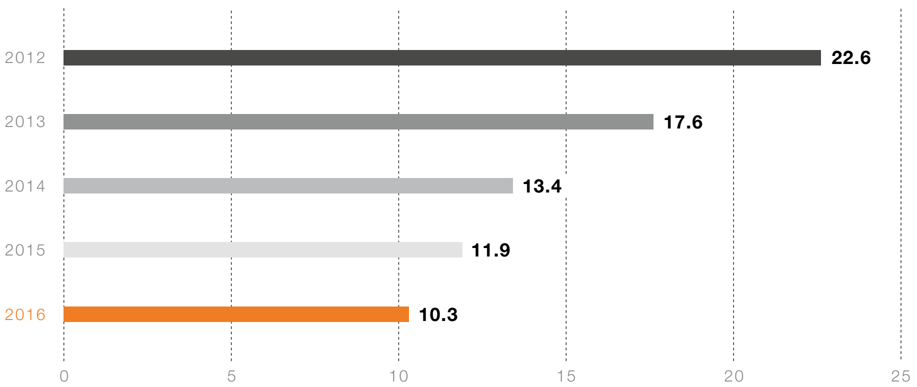
IN % OF REVENUE



MARKETING COSTS (2012 – 2016)

→ 11

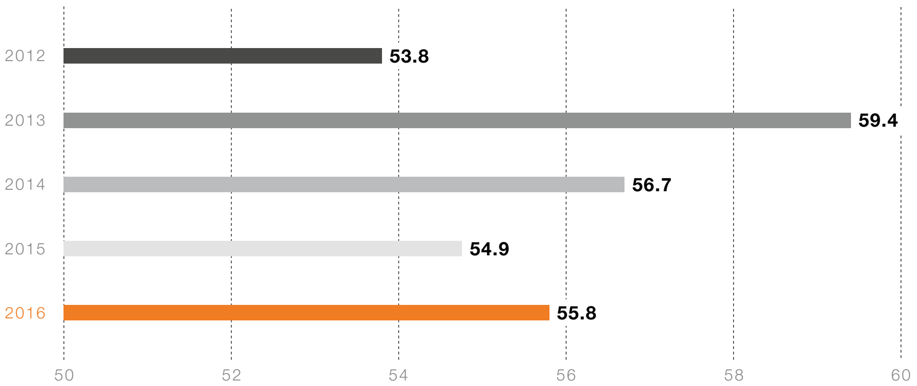
IN % OF REVENUE



COST OF SALES (2012–2016)

→ 12

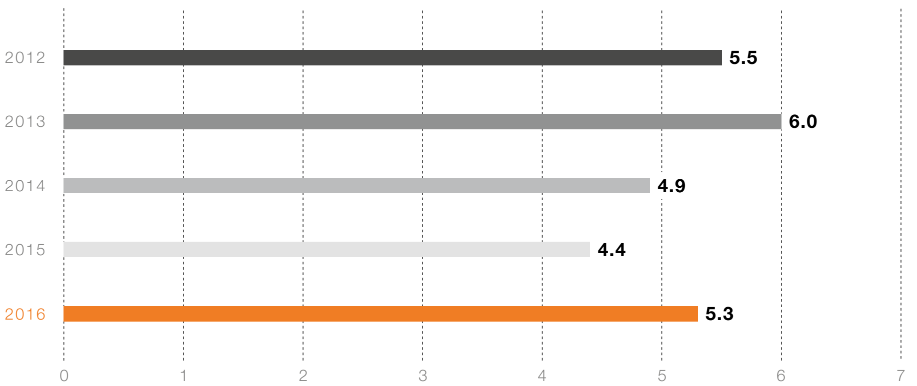
IN % OF REVENUE



ADMINISTRATIVE EXPENSES (2012–2016)

→ 13

IN % OF REVENUE



Cost of sales rose by 25.0% year on year from EUR 1,624.0m to EUR 2,029.6m, roughly in line with the expansion of business. Gross margin is in line with our long-term anticipation. For 2016, the gross margin decreased slightly by 0.9 percentage points from 45.1% to 44.2% due to lower discounts in 2015. In 2016, we continued our conscious management of the trade-off between sales promoting measures and margin and invested in customer acquisition around cyber days and during the end-of-season sale. Economies of scale from continued negotiation successes with brand partners partially offset the aforementioned effects. Selling and distribution costs rose by 9.4% year on year from EUR 1,118.9m to EUR 1,223.7m. This corresponds to an improvement of 4.2 percentage points as a percentage of revenue, a declining ratio from 37.8% in 2015 to 33.6% in 2016. Selling and distribution costs consist of fulfillment and marketing costs.

The fulfillment cost ratio as a percentage of revenue improved by 2.6 percentage points from 25.9% in 2015 to 23.3% in 2016. The decrease in the fulfillment cost ratio is primarily a result of lower payment costs, as last year's fulfillment costs had been negatively influenced by allowances for fraudulent receivables. Zalando put a strong focus on optimizing and improving its steering of payment options and has changed its solvency score provider for a better monitoring of fraudulent activities, resulting in lower allowances on trade receivables. At the same time, we continued to see operating leverage across components of the fulfillment cost line while Zalando continued to push forward with fulfillment investments, both in the consumer proposition and platform initiatives.

The marketing costs rose in absolute terms by EUR 24.0m to EUR 375.9m compared to the prior year due to selected brand marketing campaigns such as the co-branded Ivy Park campaign or our inaugural Bread&Butter event, and due to the increased business volume in general. However, relative to revenue, marketing costs decreased by 1.6 percentage points, resulting primarily from efficiency gains, in particular within performance marketing.

Administration costs increased from EUR 129.0m in 2015 to EUR 191.3m in 2016. The increase mainly results from higher headcount to strengthen the Zalando platform, and the associated office expenses.

Other operating income of EUR 16.7m (prior year: EUR 10.2m) largely comprises changes in the fair value of a derivative resulting from the interest in the proceeds from the sale of developed land owned by third parties. Income recognized in that context amounted to EUR 10.6m (prior year: EUR 2.0m). In 2016, this issue was declared as a non-operating one-off effect and eliminated from adjusted EBIT accordingly. In the prior year, the effect was deemed to be immaterial for the income statement and was therefore not eliminated from the calculation of adjusted EBIT.

EBIT margin improved by 2.7 percentage points in comparison to the prior year, rising from 3.0% in 2015 to 5.7% in 2016. In absolute terms, EBIT increased by EUR 117.5m from EUR 89.6m to EUR 207.0m. The main drivers were the improvement of 2.6 percentage points in the fulfillment cost ratio, continued improvement of 1.6 percentage points in the marketing cost ratio and the improvement of 0.1 percentage points in other operating income relative to revenue. Operating performance remained strong, mainly as a result of continued operating leverage and efficiency gains in selling and distribution costs.

ADJUSTED EBIT

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 and potential further non-operating one-time effects.

Zalando recorded an adjusted EBIT of EUR 216.3m in 2016 (prior year: EUR 107.5m), which translates into an adjusted EBIT margin of 5.9% in 2016 (prior year: 3.6%).

EBIT comprises the following expenses from equity-settled share-based payments. The non-operating one-time effects amounting to EUR 10.6m are recognized in other operating income. More information can be found in the notes to the consolidated financial statements.

SHARE-BASED COMPENSATION EXPENSES PER FUNCTIONAL AREA → 23

IN EUR M	JAN 1 – DEC 31, 2016	JAN 1 – DEC 31, 2015	Change
Equity-settled share-based payments	**19.9**	**17.9**	**2.0**
Cost of sales	5.0	4.5	0.5
Selling and distribution costs	9.9	9.0	1.0
thereof marketing costs	5.0	4.5	0.5
thereof fulfillment costs	5.0	4.5	0.5
Administrative expenses	5.0	4.5	0.5

As expenses from equity-settled share-based payments remained almost stable when compared to the prior-year period, the increase in adjusted EBIT and the adjusted EBIT margin stemmed almost exclusively from the aforementioned profit drivers.

RESULTS BY SEGMENT

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

CONSOLIDATED SEGMENT RESULTS → 24

IN EUR M	JAN 1 – DEC 31, 2016	JAN 1 – DEC 31, 2015
Revenues		
DACH	1,813.8	1,580.1
Rest of Europe	1,570.2	1,211.6
Other	255.1	166.5
Earnings before interest and taxes (EBIT)		
DACH	221.4	92.2
Rest of Europe	–6.2	–10.2
Other	–8.1	7.5
Other segment financial information		
Adjusted EBIT DACH	226.3	101.9
Adjusted EBIT Rest of Europe	–3.3	–3.3
Adjusted EBIT Other	–6.7	8.9

EBIT comprises the following expenses from equity-settled share-based payments and from non-operating one-time effects:

SHARE-BASED COMPENSATION EXPENSES PER SEGMENT → 25

IN EUR M	JAN 1 – DEC 31, 2016	JAN 1 – DEC 31, 2015	Change
Equity-settled share-based payments	**19.9**	**17.9**	**2.0**
DACH	9.9	9.7	0.2
Rest of Europe	8.2	6.9	1.2
Other	1.9	1.3	0.5

NON-OPERATING ONE-TIME EFFECTS PER SEGMENT → 26

IN EUR M	JAN 1 – DEC 31, 2016	JAN 1 – DEC 31, 2015	Change
Non-operating one-time effects	**10.6**	**–**	**10.6**
DACH	4.9	–	4.9
Rest of Europe	5.3	–	5.3
Other	0.4	–	0.4

Zalando's revenue growth was generated across all segments, thereby further expanding its market position.

In 2016, revenue grew by 14.8% in the DACH segment, by 29.6% in the Rest of Europe and by 53.2% in the Other segment, compared to the prior year.

With an increase in EBIT margin of the DACH segment by 6.4 percentage points to 12.2%, the DACH segment showed strong profitability in 2016. This significant increase mainly results from lower allowances on trade receivables and operating leverage in fulfillment costs, as well as an improvement in marketing cost ratio and non-operating one-time effects in other operating income. The EBIT margin in the Rest of Europe segment improved by 0.4 percentage points from –0.8% to –0.4% and has almost reached break-even. The EBIT margin remained fairly stable as efficiency gains were offset by growth investments. The EBIT margin in the Other segment recorded a decrease of 7.7 percentage points, resulting in an EBIT margin of –3.2% in 2016. The decrease is mainly a result of continued investments in platform initiatives.

ADJUSTED EBIT BY SEGMENT

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 and potential non-operating one-time effects. The DACH segment generated an adjusted EBIT margin of 12.5% in 2016. Compared to the prior year, the adjusted EBIT margin increased by 6.0 percentage points.

The Rest of Europe segment recorded just a slight improvement in the adjusted EBIT margin compared to the prior year, which rose by 0.1 percentage points from –0.3% to –0.2%. The Other segment showed lower profitability, recording an adjusted EBIT margin of –2.6% in 2016. In comparison to the prior year, the adjusted EBIT margin decreased by 8.0 percentage points on account of higher investments into our 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:

CONDENSED STATEMENT OF CASH FLOWS → 27

IN EUR M	JAN 1 – DEC 31, 2016	JAN 1 – DEC 31, 2015
Cash flow from operating activities	**275.8**	**119.4**
Cash flow from investing activities	**–277.1**	**–196.5**
Cash flow from financing activities	**–2.9**	**1.5**
Change in cash and cash equivalents	–4.1	–75.7
Exchange-rate related and other changes in cash and cash equivalents	0.5	0.9
Cash and cash equivalents at the beginning of the period	976.2	1,051.0
Cash and cash equivalents as of December 31	**972.6**	**976.2**

In the fiscal year 2016, Zalando generated a positive cash flow from operating activities of EUR 275.8m (prior year: EUR 119.4m). Further to an improvement in pre-tax income (which rose from EUR 86.6m in the prior year to EUR 192.9m in the reporting year), cash flow from operating activities increased largely due to a higher cash inflow from working capital. This was partly offset by the increase in income tax payments and cash outflows for VAT receivables.

The capital employed in net working capital decreased compared to the prior year and thus positively impacts the cash flow.

Net working capital, consisting of inventories and trade and other receivables less trade payables and similar liabilities decreased to a low amount of EUR –127.6m as of December 31, 2016 (prior year: EUR –2.6m).

The cash outflow from investing activities mainly results from investments in the logistics infrastructure relating primarily to the fulfillment centers in Mönchengladbach, Lahr, and Szczecin and capital expenditures on internally developed software, as well as furniture and fixtures. Cash flow from investing activities further consists of cash invested in term deposits with an original term of more than three months and is therefore presented in cash flow from investing activities. As of December 31, 2016 an amount of EUR 220.0m was invested in such term deposits (December 31, 2015:

EUR 155.0m). An amount of EUR 30.4m was invested in corporate acquisitions (prior year: EUR 16.8m).

As a result, cash and cash equivalents remained stable during the year, resulting in Zalando carrying cash and cash equivalents of EUR 972.6m as of December 31, 2016 (prior year: EUR 976.2m).

Free cash flow increased by EUR 21.1m from EUR 42.6m to EUR 63.7m compared to the prior year. The main factor in the increase is the higher cash inflow from operating activities and a less pronounced increase in cash outflows from investing activities.

Zalando's liquidity position – as the sum of cash and cash equivalents plus term deposits with an original term of more than three months but less than twelve months – rose by EUR 61.4m in 2016.

CREDIT FACILITY

On December 15, 2016, ZALANDO SE concluded a new revolving credit facility in the amount of EUR 500m with a group of banks renewing its EUR 200m revolving credit facility secured in 2014. This facility can be drawn in various currencies. The revolving credit facility can be utilized for general business purposes (including acquisitions) as well as for guarantees. The facility expires on December 15, 2021 and may be extended until December 15, 2023. As of December 31, 2016, an amount of EUR 39.2m had been utilized for bank guarantees and letters of credit.

NET ASSETS

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

ASSETS → 28

IN EUR M	DEC 31, 2016		DEC 31, 2015		Change	
Non-current assets	392.6	15.5%	253.1	12.0%	139.5	55.1%
Current assets	2,145.6	84.5%	1,863.5	88.0%	282.2	15.1%
Total assets	**2,538.2**	**100.0%**	**2,116.5**	**100.0%**	**421.7**	**19.9%**

EQUITY AND LIABILITIES → 29

IN EUR M	DEC 31, 2016		DEC 31, 2015		Change	
Equity	1,407.5	55.5%	1,271.4	60.1%	136.1	10.7%
Non-current liabilities	32.5	1.3%	31.3	1.5%	1.2	3.9%
Current liabilities	1,098.2	43.3%	813.8	38.5%	284.4	34.9%
Total equity and liabilities	**2,538.2**	**100.0%**	**2,116.5**	**100.0%**	**421.7**	**19.9%**

In 2016, total assets increased by 19.9%. The balance sheet is dominated by working capital, cash and cash equivalents, as well as equity.

In 2016, investments in intangible assets amounted to EUR 80.0m (prior year: EUR 38.3m) while investments in property, plant and equipment totaled EUR 135.7m (prior year: EUR 33.0m).

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 2016, additions related to capitalized development costs of EUR 57.7m (prior year: EUR 23.1m), of which EUR 36.4m is contained in prepayments (prior year: EUR 9.2m).

Inventories in the fiscal year 2016 mainly represent goods required for Zalando's wholesale business. Despite the growth of business, inventories increased by only EUR 83.4m to EUR 576.9m against the background of a good sell-through of the fall/winter collection and enhanced steering of inbound deliveries.

Trade and other receivables as reported on December 31, 2016 are all current. The increase of EUR 66.3m to EUR 216.0m is primarily attributable to the higher volume in business.

Equity rose from 1,271.4 to EUR 1,407.5m in the fiscal year. The EUR 136.1m increase primarily stems from the net income for the period. In the reporting period, the equity ratio fell from 60.1% at the beginning of the year to 55.5% as of December 31, 2016 on account of the rise in total assets.

Current liabilities increased by EUR 284.4m in the reporting period. This increase is mainly attributable to trade payables and similar liabilities, which rose by EUR 274.8m from EUR 645.8m last year to EUR 920.5m in the reporting period. The increase is largely due to deliveries of merchandise in light of the higher business volume and longer payment terms. Moreover, under reverse factoring agreements, suppliers' claims against Zalando totaling EUR 282.3m were transferred to various factors as of December 31, 2016 (December 31, 2015: EUR 170.9m). These items were recognized in the statement of financial position under trade payables and similar liabilities.

Net working capital, consisting of inventories and trade and other receivables less trade payables and similar liabilities, improved to EUR –127.6m as of December 31, 2016 (December 31, 2015: EUR –2.6m). The improvement results mainly from the increase in trade payables, which reflects the higher business volume and the seasonal delivery peak, as well as an extended availability and utilization of reverse factoring lines. Furthermore, this development was supported by successful negotiations with our suppliers that resulted in extended payment terms.

OVERALL ASSESSMENT

The Management Board views the business development in 2016 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 2016 and won additional market share. The EBIT margin increased substantially as a result of the strong performance. In view of the high operating leverage, Zalando continued to push forward with growth investments in its consumer proposition and platform initiatives.

Overall, the company's targets in terms of revenue, EBIT and EBIT margin were met. The 2015 group management report anticipated adjusted EBIT margin in 2016 between 2.6% and 4.1%. During 2016, the increase in adjusted EBIT margin was stronger than forecasted and resulted in upward guidance adjustments during the year. The increased guidance for an adjusted EBIT margin of around 5.0% to 6.0% was met by year-end. Similarly, it was assumed that Zalando would report revenue growth at the upper end of its growth corridor between 20% and 25%. In this context, a strong increase in the number of orders and a similar level of average basket size was expected. The sales growth met our guidance as sales increased by 23.0%. Therefore, the group achieved its targets set in the 2015 group management report and even overachieved in some areas.

04.2.4 EMPLOYEES

At the end of 2016, Zalando had 11,998 employees (prior year: 9,987), representing an increase of 20.1% on the prior year. The average headcount grew by 1,831 to 11,036. The significant growth was strongly driven by increasing headcount in the technology and operations departments.

Additional information regarding our sustainability strategy is provided in the separate Section 01.4 Corporate Responsibility.[10]

10) The sustainability report 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

- Comprehensive risk and opportunity management implemented throughout the group
- Risks and opportunities are continuously monitored and managed
- The risk matrix clusters risks by probability of occurrence and qualitative impact
- Zalando wants to use the opportunities to create added value
- There is no indication in the current opportunity and risk situation that the existence of ZALANDO SE as a going concern is jeopardized

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 setting up and operating an effective risk and opportunity management system for the Zalando group. 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.

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. This ensures that risks and opportunities are documented throughout the company using a uniform method. The GRC cycle is designed to support decision-making by providing consistent, comparable, and transparent information.

The GRC function reports to the Management Board and to the audit committee of the Supervisory Board on the risk situation on a biannual basis. If critical issues arise, the regular reporting process is supplemented by ad-hoc reporting. All employees of Zalando are requested 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. In addition, the audit committee of the Supervisory

Board, with the involvement of the external auditors, also monitors the effectiveness of the internal control, risk management, and audit systems.

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 of the applicable departments.

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 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

All risks identified are quantified based on their probability of occurrence and their potential 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.

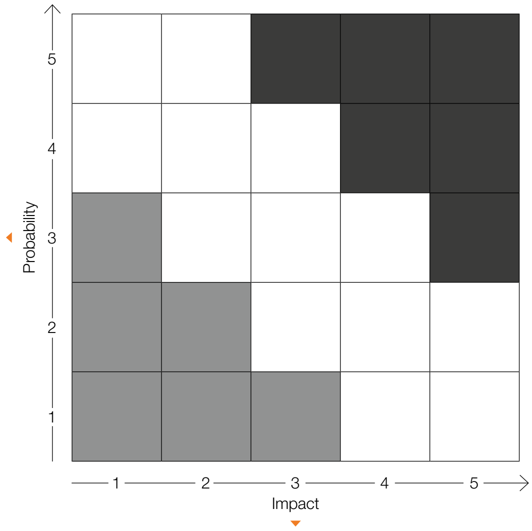
The impact assessment is conducted either on a quantitative scale (preferred) or a qualitative scale (alternatively if risks cannot be quantified or qualitative outweigh quantitative aspects). Quantitative classes are based on a scale relating to the potential financial impact on profit (EBIT).

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 using the following approach:

PROBABILITY OF OCCURENCE (WITHIN THE FOLLOWING YEAR) → 30

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%



QUALITATIVE IMPACT (ALTERNATIVE) → 31

Class	Reptutational Effect	Criminal Prosecution
1	very low	very low
2	low	low
3	medium	medium
4	high	high
5	very high	very high

QUANTITATIVE IMPACT (PREFERRED) → 32

Class	Loss Amount
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

In addition, risks in impact class 5 that exceed EUR 250m are also denoted as risks that could jeopardize the company’s ability to continue as a going concern.

All single risks and opportunities assessed as significant using the described methodology are described in detail in the section below. Overarching market opportunities and general opportunities are described in a separate section.

04.4.4 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 the 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 an online retail business.

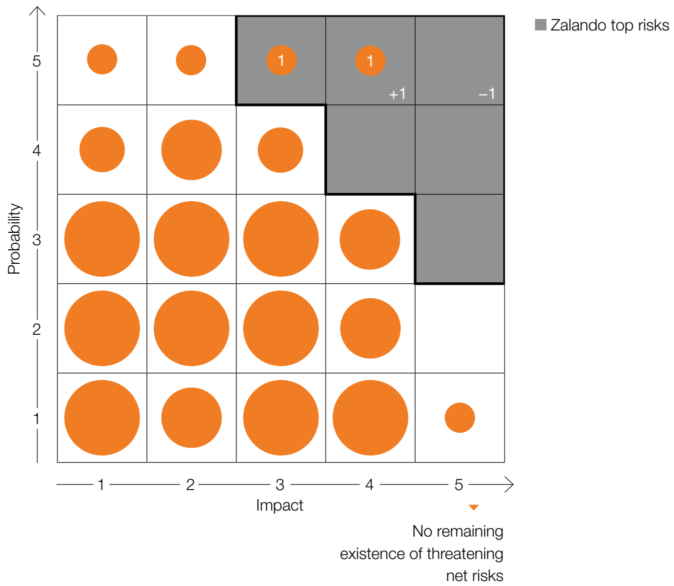
There are currently no net risks assessed that would jeopardize the company’s ability to continue as a going concern. Nevertheless, we deem two risks to be significant (top risks described below).

RISKS WITH HIGH PROBABILITY AND HIGH IMPACT (TOP RISKS)

Based on the net risk view, risks are defined as top risks if they display a critical combination of probability and impact (denoted by the grey-shaded area in the matrix).

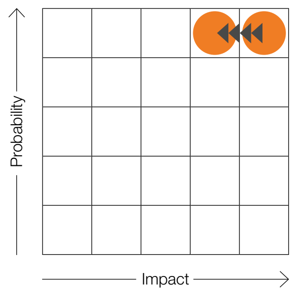
These two risks were also top risks in fiscal year 2015, but the “Risks from bad debts/external fraud” were mitigated by new measures and additional measures are planned for the “Risks from a lack of business continuity management”.

NUMBER OF NET RISKS → 14



RISKS FROM BAD DEBT LOSS / EXTERNAL FRAUD (FOCUS ON PAYMENT TRANSACTIONS IN THE RETAIL BUSINESS)

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. This risk is generally heightened for e-commerce companies that offer invoices as a payment method.



Probability: very high
Impact: high (formerly impact was very high)

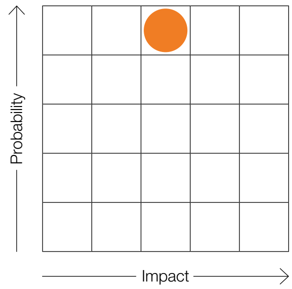
Overall, the default risk is distributed differently across the various countries, regions, and cities. To detect and prevent payment default and fraud early on, Zalando has a comprehensive payment and fraud management system in place. In addition, write-downs for trade receivables are recognized to a sufficient extent.

The risk remains significant as growing sales can lead to additional bad debt losses in absolute terms, even if the proportion of bad debts to total sales remains constant or even decreases, and Zalando is not able to completely prevent attempts at fraud. In addition, new fraud patterns with severe potential losses may arise.

We closely monitor future trends and continuously improve the collection processes. As a result of the improved countermeasures, the ratio of bad debt compared with revenue was reduced for 2016.

RISKS FROM A LACK OF BUSINESS CONTINUITY MANAGEMENT (FOCUS ON TECHNOLOGY)

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



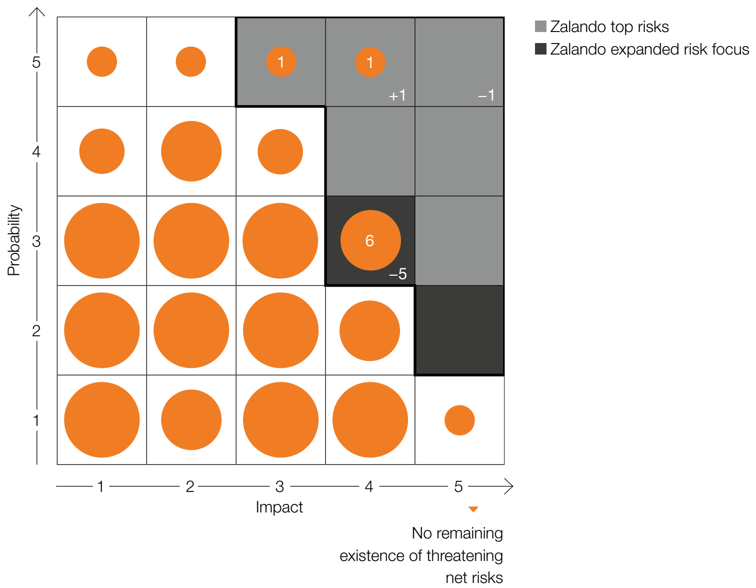
Probability: very high
Impact: medium

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. Monitoring systems and incident management processes are continuously being improved. A risk management system has been implemented for applications and systems. Outsourced services (e.g. data center) are integrated into the monitoring processes and adequate service level agreements are concluded. Zalando's Business Assurance team is currently analyzing the dependence on applications and data streams and is working on additional countermeasures to reduce the probability and the damage of outages.

EXPANDED RISK AND OPPORTUNITY AREA

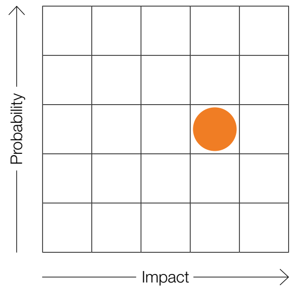
Risks and opportunities delineated by the dark grey margin as shown in the matrix are considered to be significant risks due to the combination of a certain level of probability and a certain level of impact. The amount of significant risks was reduced from twelve to six compared with the fiscal year 2015, as additional implemented countermeasures are mitigating these risks. The only risk to increase was "Risks from changing regulatory requirements (or other basic market conditions) within the markets" which is therefore currently part of the expanded risk area.

NUMBER OF NET RISKS → 15



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.



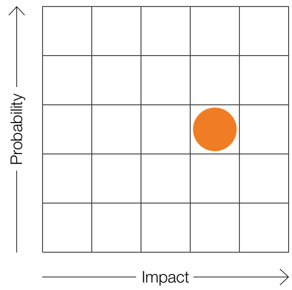
Probability: medium
Impact: high

Zalando invests in good relationships with its employees and constructive exchanges to improve the work environment and conditions. Social standards have been implemented that are regularly audited to ensure the quality of working conditions.

Zalando is open to the principle of co-determination at fulfillment centers and maintains a continuous dialog with employees and work councils to further improve the working atmosphere.

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 non-optimal budgeting and unfavorable sourcing activities.



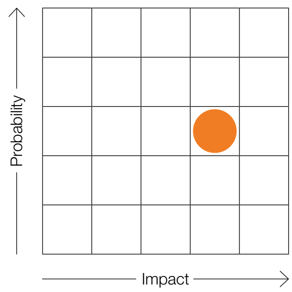
Probability: medium
Impact: high

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, the Merchandise Planning function, 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 adjustments. Zalando uses a detailed indicator system to identify negative discrepancies at an early stage and to implement appropriate measures in order to monitor and manage 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 merchandise risk is an inherent risk of our business model and can have an impact anywhere along the value chain.

RISKS OF MISSING MARKET OPPORTUNITIES DUE TO INSUFFICIENT 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.

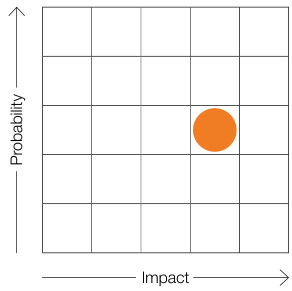


Probability: medium
Impact: high

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. In addition, Zalando has established dedicated brand shops for individual private labels included in the Zalando online presences.

RISKS FROM LACK OF "STATE OF THE ART" SHOPS AND SERVICE

In order to meet the rising and changing demands on contemporary products and service and to realize market opportunities, rapid, innovative, and appropriate adjustments have to be made to the shops constantly. Neglecting the necessary measures or inadequate implementation of such measures can lead to customer migration away from Zalando's services, followed by significant revenue losses.



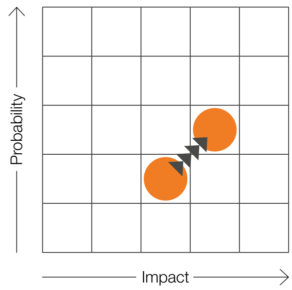
Probability: medium
Impact: high

A significant overarching countermeasure is the establishment of the Customer Experience team within the technology department.

The team reveals and suggests relevant developments and adjustments and coordinates implementation with stakeholders and consequently ensures the continuous development of the shops.

RISKS FROM CHANGING REGULATORY REQUIREMENTS (OR OTHER BASIC MARKET CONDITIONS) WITHIN THE MARKETS

Risks can arise due to conducting business in various countries and the quickly changing regulatory environments in many of them. Potential risk scenarios involve additional costs for necessary adjustments (customs, product safety, working conditions, product offering, etc.) and penalties in the event that the adjustments are not made at all or not made in good time. In addition, other consequences of such changes (exchange-rate changes, unexpected customer behavior, reputational risks) can lead to more substantial losses.



Probability: medium
(formerly probability was low)
Impact: high
(formerly impact was medium)

The increased risk exposure is mainly driven by the fact that regulatory changes are currently being made to a great extent within the EU (e.g. triggered by the DSM (Digital Single Market) Initiative, the E-Commerce Sector Inquiry of the EU, attempts to address related issues within the member states, and by events subsequent to Brexit). Necessary amendments to processes and business cases can lead to costs or to reduced sales.

To reduce the impact of regulatory changes, Zalando has established a "Regulatory Watch" concept, whereby relevant regulatory and legal topics are allocated to the individual functions which have to ensure the monitoring of changes throughout the markets.

For the triggering events mentioned above, Zalando has initiated the following measures.

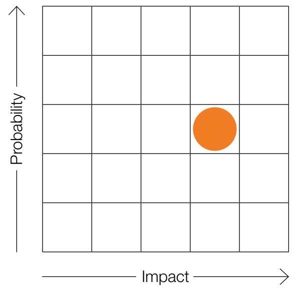
DSM: Zalando's Public Affairs team has started a dialog with the external stakeholders at the EU in order to be up-to-date with the latest developments and to give feedback and its own input. New developments are monitored and examined by the Legal team for their possible impact on Zalando's business case.

EU E-commerce Sector Inquiry: Zalando is monitoring the EU E-commerce Sector Inquiry and has provided the European Commission with the information it has requested.

Brexit: A task force has been set up by the Legal Team to gather and evaluate Zalando-specific risks as a result of Brexit.

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

The ability to promptly implement in-house-driven innovations as well as current market trends is a precondition for sustainable success. In addition to innovative strengths and the ability to implement them, it is essential to recognize and analyze trends and innovation opportunities, which, if missed, might lead to a loss of market share and decreasing competitiveness.



Probability: medium
Impact: high

To counteract this risk, Zalando has defined programs and processes to support product innovations. To ensure innovativeness, a concept of agile software development (radical agility) was implemented that is refined by ongoing organizational changes.

In addition, Zalando's system architecture is continuously being improved to ramp up the flexibility for adaptions. Project proposals from the Customer Experience team and from the Product Management organization of the Technology department are implemented on an ongoing basis while projects concerning customer benefit are prioritized.

MITIGATED RISKS AND OPPORTUNITIES

During the two GRC-Cycles in 2016, each of the risks were assessed anew. As stated in the chapter Expanded Risk and Opportunity Area, six risks were mitigated by improved countermeasures to a level so that they currently are no longer considered significant. These risks are:

- Risk from inefficient internal logistics processes at fulfillment centers
- Risks from inaccurate personnel and capacity forecasts for fulfillment centers
- Risks from hazardous material/conditions in production with regard to private labels
- Risks due to safety deficiencies on sold products with regard to private labels
- Risks from scarcity of resources at fulfillment centers
- Risks of missing opportunities due to a lack of market knowledge and purchasing and negotiation capabilities within Indirect Procurement

Despite the fact that these risks are no longer part of the expanded risk area, they are still closely monitored by the respective departments and additional countermeasures are planned for implementation.

FINANCIAL RISKS

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 counterparty risk, liquidity risk, and 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.

COUNTERPARTY RISK

Counterparty risk refers to the risk that a counterparty may default on its obligation to Zalando. The default risk mainly arises from trade receivables and, to a lesser extent in terms of probability of occurrence from claims originating from financial contracts with other parties, e.g. term deposits, derivative financial assets and bank account balances.

The company addresses this exposure by distributing its derivatives financial instruments and cash held at banks over multiple financial institutions to minimize risk exposure to a single counterparty. Furthermore, the company sets maximum investment amounts in order to minimize the default risk.

LIQUIDITY RISK

The liquidity risk is defined as a possible lack of cash funds to fulfill the financial obligations of the company. This hazard may arise from insufficient centralization of cash where it is needed, inexact liquidity forecasting or unbalanced investment strategy for the company's cash reserves. Zalando manages its exposure to liquidity risk by regularly monitoring liquidity needs using an integrated platform for short, medium, and long-term forecasting of the cash requirements. Additionally, the group invests the cash reserves of the company in term deposits and money market instruments and pools the cash balances centrally on a regular basis to ensure maximization of cash where it is needed.

CURRENCY AND INTEREST RATE RISK

The currency risk is defined as the risk of differences in actual and planned foreign exchange revenue and cost items as a result of fluctuating exchange rates, with a potential negative impact on the company's financial results. Likewise, the interest rate risk is defined as the risk of changes in interest due on maturing debt as a result of varying reference interest rates, with potential negative implications for interest expenses.

Zalando operates in different markets and is therefore exposed to foreign currency risk, generated from revenues and sourcing transactions in foreign currencies. The currency exposure is managed by means of regular cash pooling to the EUR currency, natural hedging, and forwards hedging.

Forward contracts 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 18 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, 2016, earnings before taxes would have been EUR 5.8m lower (prior year: EUR 5.4m). If the euro had depreciated 5% compared with the exchange rate as of December 31, 2016, earnings before taxes would have been EUR 6.4m higher (prior year: EUR 6.0m). The reserve for derivatives in group equity would have been EUR 34.6m higher (prior year: EUR 11.8m higher) if the euro had appreciated 5% compared with the exchange rate as of December 31, 2016. This reserve would have been EUR 38.2m lower (prior year: EUR 13.1m lower) if the euro had depreciated 5%.

MARKET OPPORTUNITIES AND GENERAL OPPORTUNITIES

MACROECONOMIC DEVELOPMENT

The European Commission projects 2017 eurozone growth of 1.5% and EU growth of 1.6%. Private consumption is expected to be one of the main drivers of growth during the forecast period. Labor market gains across important European economies will also contribute to an increase of disposable income in real terms[11]. The World Bank's forecast[12] is also optimistic, with growth in the region predicted to accelerate to 2.7% on average in 2017–19, driven by a recovery in commodity-exporting economies and improved confidence. This outlook is predicated on a continued, but modest, recovery in commodity prices and easing geopolitical tensions.

Notwithstanding this, the UK "leave" vote (Brexit) has raised the level of uncertainty. Although the market reaction to the Brexit shock was reassuringly orderly, the ultimate impact remains unclear, as the fate of institutional and trade arrangements between the United Kingdom and the European Union is uncertain[13]. With regards to the surge in the number of asylum seekers and refugees, the impact appears moderate from a purely macroeconomic perspective. In the medium to long term, the cost of failed integration, socially and politically, would potentially be markedly more important[14].

In Germany, growth momentum is expected to be maintained[15]. The solid labor market, resilient exports and booming construction investment are expected to provide a boost to growth and drive private consumption. 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

European online fashion sales[16] amounted roughly to EUR 51bn in 2016, making up 11.9% of all fashion retail. While the overall market for fashion in Europe (excluding Russia) remained virtually unchanged between 2011 and 2016, online fashion sales grew at a considerably faster rate with average annual growth (CAGR) of approximately 13.4% during the past 5 years. This trend is forecast to continue, as the percentage of people in the overall population who became 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.

Zalando is well positioned to benefit from these favorable market conditions due to the strength of its fashion brand, its consumer reach, the scale of its operations across European markets, and its deep understanding of the digital economy.

The online retail market in Europe reported revenue totaling EUR 263.6bn in 2016, with a CAGR of 15.6% since 2011. While the online share of retail trade in the United States came to 10.5% in 2016, the online share of retail trade in Zalando's target market, Europe, rose from 4.2% in 2011 to 7.8% in 2016.[17]

As the online retail market continues to grow, Zalando's focus on providing customers with unique fashion experiences, convenient delivery services, and a product range tailored to local needs puts

11) European Commission, Fall 2016 Economic Forecast
12) World Bank, Global Economic Prospects, January 17
13) International Monetary Fund, World Economic Outlook
14) European Commission, An Economic Take on the Refugee Crisis
15) European Commission
16) Euromonitor, Europe excl. Russia
17) Euromonitor International

the group in a favorable position to further expand its revenue and market share. Targeted marketing activities will complement these efforts and help to increase brand awareness, win new customers, and retain existing ones for the long term. Most importantly, the strategic realignment to move towards a platform business model will create new opportunities for growth. It is envisaged that the platform business model brings together different fashion stakeholders, which will in turn help to enhance selection, expand inspiration channels, and improve convenience services. 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.

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 9.3bn in 2012 to almost EUR 62.8bn in 2016. It is anticipated that this revenue will grow at an annual average growth rate of 15.3% to reach EUR 128bn in 2021.[18]

Mobile devices have become a core pillar of online retail companies and this will continue to grow in further in the coming years. Zalando uses mobile technologies to connect with consumers in new and innovative ways wherever they are. Zalando has developed apps to provide customers with multiple channels to engage, browse, and discover fashion. Most importantly, Zalando is using mobile technology to personalize and improve customers' shopping experience. Mobile apps are critical to expand Zalando's revenue and customer reach potential. They not only help Zalando to better connect with its customers, but they also open up new business opportunities. Developing mobile technologies can help Zalando to enter high traffic social media and chat platforms that are becoming new commerce destinations. To fully exploit these opportunities, Zalando is evolving into a Mobile First company in all respects.

SCALABLE LOGISTICS

Zalando continues to improve the customer experience in its markets by extending its fulfillment capabilities. The scalable logistics infrastructure is currently composed of four fulfillment centers in Brieselang, Erfurt, Lahr, and Mönchengladbach, which are strategically positioned within Germany to efficiently supply customers throughout Europe. The construction of the fulfillment center in Lahr is still ongoing, and the first manual operations have already commenced. A fifth fulfillment center in Szczecin, Poland is currently under construction. It will cover 130,000m^2 and is expected to start operations in fall 2017. The company's first satellite warehouse in Stradella, Italy, which started its operations in early 2016, already fulfills 70% of Italian orders. Zalando will start operations at another satellite warehouse close to Paris, France, in the first quarter of 2017. An additional function-specific fulfillment center, operated by service providers, was opened in Peine, Germany, as the central warehouse for private labels.

With floor space of more than 310,000 m^2, the current fulfillment centers make it possible to process significantly higher revenue volumes than in fiscal year 2016.

18) Euromonitor International

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, faster, and more convenient. Zalando's logistics concept therefore constitutes a fundamental asset to its core business and a unique selling proposition.

Continuous improvements in logistics infrastructure and processes contribute to increasing delivery speed and expanding delivery options. This in turn results in greater convenience benefits, which are a key to increasing customer satisfaction.

This also opens up new business fields. As part of the platform strategy framework, Zalando is leveraging its logistics assets and expertise to strengthen and expand its engagement with brand partners. To do this, Zalando is opening up its operations infrastructure to brand partners via the Fulfillment by Zalando. Corresponding pilot projects are currently underway.

SMART DATA

Zalando collects data and uses its internally developed analytical tools to optimize every aspect of the business. Data analyses are used in multiple ways: to forecast demand, provide consumers with the most personalized fashion purchase experience possible, set country-specific pricing, and to customize product offerings. 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 the Zalando Shop and its mobile applications can be used to gain an in-depth understanding of consumer behavior and purchasing patterns. This knowledge enables the brands 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.

Over the last two years, Zalando has invested to expand and optimize its marketing capabilities. As part of these efforts, Zalando acquired Metrigo GmbH in 2015, a specialist for display marketing banners and real-time bidding, and nugg.ad GmbH at the beginning of 2016, a specialist for targeted marketing. Benefiting from these investments and Zalando's expertise and extensive consumer reach, Zalando Media Solutions GmbH was founded and provides brands with tailored marketing products.

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 improving consumer experiences and reducing value chain frictions in the fashion industry by leveraging its technology solutions.

For example, in cooperation with its brand partners, Zalando has opened over 2,500 individual brand shops since 2015 at which visitors can shop as if in an online flagship store. The brands interact directly with the customers, manage their picture, video and text content by themselves and obtain detailed insight into the browsing and shopping behavior of their customers.

By taking over Tradebyte Software GmbH and enlarging the stake in Anatwine Limited in 2016, Zalando has built up strong partnerships 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. Technology will be one of the main drivers of efficiencies for the fashion industry in the coming decade. In this context, Zalando intends to further consolidate its position as a technologically driven company and innovator. As part of this effort, Zalando seeks to address the needs of its brand partners and to offer more personalized channels to inspire buyers of fashion again and again.

LOCAL ALIGNMENT

Adapting Zalando's product range and services 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 fulfillment 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 fashion competence and the ability to design an exciting and personalized fashion experience. To prevail over the competition, Zalando has systematically developed these skills in a number of different ways.

In this context, Zalando runs the Zalon consulting service 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 with a loyal customer base and has started to increase sales by targeted marketing activities and additional distribution channels.

To remain at the cutting edge, Zalando's trend scouts intensively search the markets and fashion centers to predict and also 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, smart logistics, digital services, 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 helps the company reach and win over new customers, which in turn attracts more brands. This then increases the number of visitors on the group's websites.

With about 200,000 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 offer not only a choice of 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.

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

- Strong growth is once again forecast for internet retailing in Europe and Germany
- For 2017, an 8.7% increase in online fashion sales is forecast for Europe, while 9.8% is forecast for Germany
- Zalando aims to continue its course of profitable growth and capture further market share
- Revenue in 2017 is set to grow by 20% – 25%, the adjusted EBIT margin is expected to lie between 5.0% and 6.0%

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[19] is expected to achieve year-on-year growth of just 1.7% in 2017, while online retail is expected to grow 11.4%. The picture in Germany is similar. Retail is forecast to grow roughly 2.2% in 2017, whereas internet trade is expected to increase by 13.6%. The Association of the German Internet Industry[20] also predicted that more than half (53%) of German GDP will be comprised of e-commerce-related activities by 2017, a 16% leap from 2012 e-commerce activity levels.

The online fashion industry in Europe and Germany is also predicted to have continued growth. Fashion sales in Europe are expected to stagnate (growth of 0.5% to the prior year), while fashion sales in Germany are even expected to decline slightly (decline of 0.2%). 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 8.7% in 2017, while predictions for Germany anticipate that the market will grow by 9.8% compared with the previous year[21].

With the development of e-commerce models and the increasing openness of consumers to online shopping, Zalando expects the online fashion share to continue to grow strongly in 2017. Due to its wide brand awareness among European consumers, large customer base, strong supplier relationships, and infrastructure footprint, as well as its fashion and mobile technology capacity, 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 pure-play fashion e-commerce retailers, like Zalando, with a considerable edge compared to non-specialized e-commerce retailers.

19) Euromonitor, Europe excl. Russia
20) Association of the German Internet Industry
21) Euromonitor, Europe excl. Russia and Germany

04.5.2 FUTURE DEVELOPMENT OF THE GROUP

Zalando aims to continue its course of profitable growth in the future and to gain market share. With this goal, management has defined three investment areas for 2017 that will provide the basis for long-term success. We will focus on investing in the consumer and supplier proposition, as well as in our technology and operations infrastructure to 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 in a corridor of 20% to 25% in fiscal year 2017. Revenue in fiscal year 2017 is expected to grow primarily as a result of a further strong increase in orders. We do not anticipate any major year-on-year movements in the average basket size.

Management expects to achieve again strong profitability with an adjusted EBIT margin of 5.0% to 6.0% in fiscal year 2017 (unadjusted EBIT margin of 4.6% to 5.6%), despite continuing investment into the consumer and supplier propositions and infrastructure.

04.5.3 OVERALL ASSESSMENT BY THE MANAGEMENT BOARD OF ZALANDO SE

Overall, the Management Board views the developments in fiscal year 2016 and the economic position of Zalando as very positive. The group returned a profit once again at group level in the fiscal year. Zalando showed significant growth, made important long-term investments and achieved a strong level of profitability. The company has grown considerably in all markets and has improved its market position further. In 2017, Zalando expects to be able to continue the strong 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 HGB and the AktG in conjunction with Article 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 HGB. The consolidated financial statements are prepared in accordance with International Financial Reporting Standards (IFRS) as adopted in the EU. This gives rise to differences in recognition and measurement policies. The differences primarily relate to provisions, financial instruments, and deferred taxes.

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 provided by ZALANDO SE comprise administrative and IT services.

04.6.2 ECONOMIC SITUATION OF ZALANDO SE

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

INCOME STATEMENT OF ZALANDO SE

→ 33

IN EUR M	JAN 1 – DEC 31, 2016	In % of sales	JAN 1 – DEC 31, 2015	In % of sales	Change in percentage points
Revenue	3,650.7	100.0%	2,950.8	100.0%	0.0pp
Own work capitalized	45.2	1.2%	22.4	0.8%	0.5pp
Other operating income	50.7	1.4%	80.8	2.7%	–1.3pp
Cost of materials	–2,043.3	–55.9%	–1,621.1	–54.9%	–1.0pp
Gross profit	**1,703.3**	**46.7%**	**1,432.9**	**48.5%**	**–1.8pp**
Personnel expenses	–227.4	–6.2%	–170.4	–5.8%	–0.5pp
Amortization and depreciation	–27.0	–0.7%	–22.1	–0.7%	0.0pp
Other operating expenses	–1,245.9	–34.2%	–1,148.8	–38.9%	4.7pp
Earnings before interest and taxes	**203.0**	**5.6%**	**91.6**	**3.1%**	**2.5pp**
Financial result	**–4.4**	**–0.1%**	**–0.6**	**0.0%**	**–0.1pp**
Earnings before tax	**198.6**	**5.4%**	**91.0**	**3.1%**	**2.4pp**
Income taxes	–65.7	–1.8%	36.2	1.2%	–3.0pp
Net income for the year	**132.9**	**3.6%**	**127.2**	**4.3%**	**–0.7pp**
EBIT margin	5.6%		3.1%		2.5pp

In the reporting period, Zalando increased its revenue by EUR 699.9m to EUR 3,650.7m. The 23.7% increase in revenue is the result of the higher number of orders (25.5%) and a larger customer base. Zalando continued its positive development in all markets. Furthermore, income mainly from intercompany charges of EUR 44.1m was reclassified from other income to revenue according to German Transformation of the EU Directive Act.

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 increased significantly, contributing substantially to the overall growth.

REVENUE OF ZALANDO SE BY SEGMENT → 34

IN EUR M	JAN 1 – DEC 31, 2016		JAN 1 – DEC 31, 2015		Change	
DACH*	1,952.0	53.5%	1,665.6	56.5%	286.4	17.2%
Rest of Europe**	1,698.7	46.5%	1,285.2	43.5%	413.5	32.2%
Total	**3,650.7**	**100.0%**	**2,950.8**	**100.0%**	**699.9**	**23.7%**

*) 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 22.8m in own work capitalized in the reporting year was due to the large number of development projects.

The cost of materials rose by EUR 422.2m to EUR 2,043.3m, in line with the expansion of business. The increase of 1.0 percentage points in the ratio of the cost of materials to revenue to 55.9% can be primarily attributed to higher discount rates in fiscal year 2016. Overall, ZALANDO SE generated a gross profit of EUR 1,703.3m in fiscal year 2016 (prior year: EUR 1,432.9m).

Personnel expenses rose by EUR 57.0m to EUR 227.4m, in line with the rise in the number of employees. As of December 31, 2016, the headcount increased by 692 on the prior year from 3,237 to 3,929 employees.

Other operating expenses primarily include marketing expenses as well as shipping and fulfillment costs. The cost ratio as a percentage of revenue improved by 4.7 percentage points from 38.9% in 2015 to 34.2% in 2016. The decrease in the fulfillment cost ratio is a result of lower payment costs, as last year's fulfillment costs had been negatively influenced by allowances for fraudulent receivables. Furthermore, marketing costs decreased mainly resulting from efficiency gains, in particular within performance marketing.

The EBIT for the year of EUR 203.0m (prior year: EUR 91.6m) can mainly be ascribed to the improvement of 4.7 percentage points in the other operating expenses.

The financial result comprises income from profit transfers of EUR 4.4m (prior year: EUR 2.3m) mainly from the profits generated by the outlets in Berlin, Frankfurt, and Cologne during the reporting period.

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 2016 in Germany was 15.8%. The applicable trade tax rate was 14.8% as in the prior year.

Current and deferred taxes are presented in the following table.

INCOME TAXES → 35

IN EUR M	JAN 1 – DEC 31, 2016	JAN 1 – DEC 31, 2015
Deferred taxes	–41.8	48.3
Current taxes in Germany	–23.9	–12.1
Total	**–65.7**	**36.2**

ZALANDO SE has previously made losses, which may be carried forward to reduce the tax burden for future years. As of the reporting date, ZALANDO SE maintains unused corporate income tax losses of EUR 78.6m (prior year: EUR 188.6m) and unused trade tax losses of EUR 60.4m (prior year: EUR 174.5m). The amount of these unused tax losses depends on the final assessment by the applicable tax office.

NET ASSETS AND FINANCIAL POSITION

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

ASSETS → 36

IN EUR M	DEC 31, 2016		DEC 31, 2015		Change
Non-current assets	461.8	17.9%	205.5	9.8%	256.3
Current assets	2,091.8	81.3%	1,840.0	87.7%	251.8
Prepaid expenses	15.4	0.6%	6.9	0.3%	8.5
Deferred tax assets	4.5	0.2%	46.3	2.2%	–41.8
Total assets	**2,573.5**	**100.0%**	**2,098.7**	**100.0%**	**474.8**

EQUITY AND LIABILITIES → 37

IN EUR M	DEC 31, 2016		DEC 31, 2015		Change
Equity	1,444.0	56.1%	1,290.8	61.5%	153.2
Special items for government grants	0.1	0.0%	1.3	0.1%	–1.2
Provisions	237.2	9.2%	203.5	9.7%	33.7
Liabilities	890.5	34.6%	602.2	28.7%	288.2
Deferred income	1.7	0.1%	0.9	0.0%	0.9
Total equity and liabilities	**2,573.5**	**100.0%**	**2,098.7**	**100.0%**	**474.8**

The total assets of ZALANDO SE rose by around 22.6% as a result of the further increase in business volume. The assets primarily consist of current assets, specifically inventories, and cash and cash equivalents.

In fiscal year 2016, capital expenditures focused on intangible assets (EUR 53.8m) and financial assets (EUR 220.0m). Investing activities were financed exclusively from own funds.

In fiscal year 2016, inventories mainly comprised merchandise used in the core operational business of ZALANDO SE.

As of December 31, 2016, ZALANDO SE's trade receivables were up EUR 99.2m to EUR 303.2m.

With regard to the liquidity and the financial development of ZALANDO SE we refer to the financial development of Zalando group. The financial development of Zalando group reflects basically the financial development of ZALANDO SE. Furthermore, ZALANDO SE is responsible for the cash management of the Zalando group.

In the past fiscal year, ZALANDO SE generated positive cash flow from operating activities of EUR 252.9m (prior year: EUR 80.8m). Further to an improvement in pre-tax income, cash flow from operating activities increased largely due to a higher cash inflow from working capital. This was partly offset by the increase in income tax payments and cash outflows for VAT receivables.

Cash flow from investing activities in fiscal year 2016 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 fulfillment centers in Mönchengladbach, Lahr, and Szczecin and in intangible assets (mainly software and licenses) as well as in property, plant and equipment, primarily for furniture and fixtures.

The equity ratio stood at 56.1% (prior year: 61.5%).

Provisions and liabilities increased by EUR 321.9m to EUR 1,127.7m in line with the expansion of business. As of December 31, 2016, 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 282.3m had been transferred to the factor as of December 31, 2016 (prior year: EUR 170.9m); this amount is 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 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 and its weight within the group. The statements also reflect the expectations for the parent company.

Berlin, February 24, 2017

Robert Gentz David Schneider Rubin Ritter

05.1 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, February 24, 2017

The Management Board

Robert Gentz David Schneider Rubin Ritter

06.1 CORPORATE GOVERNANCE REPORT

Corporate governance, as practiced by Zalando, 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 statement on corporate governance in accordance with Section 289a HGB (German Commercial Code), as the content of the two is closely linked. In accordance with Section 289a HGB, the statement on corporate governance forms part of the management report.[22]

06.1.1 DECLARATION OF CONFORMITY

Declaration by the Management Board and the Supervisory Board of ZALANDO SE regarding the recommendations of the Government Commission German Corporate Governance Code pursuant to Section 161 AktG (German Stock Corporation Act).

The Management Board and Supervisory Board submitted the annual declaration of conformity pursuant to Section 161 AktG in November 2016. In December 2016, the Management Board and Supervisory Board updated the declaration of conformity pursuant to Section 161 AktG as set out below. The declaration of conformity of November 2016, as well as the update of December 2016, are made available on the company's website.

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 November 2016 and until December 7, 2016, acted in conformity with the recommendations of the Government Commission German Corporate Governance Code published by the Federal Ministry of Justice and Consumer Protection on June 12, 2015 in the official section of the Federal Gazette (Bundesanzeiger) in its version of May 5, 2015 (hereinafter the "Code") with the deviations stated and explained therein and – after the departure of one member of the Supervisory Board of ZALANDO SE from his office as CEO of a listed company – acted since December 7, 2016 and will in the future act in conformity with the following deviations:

— **No. 3.8 Paragraph 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 when competing 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

22) The statements on corporate governance in accordance with Section 289a HGB are unaudited part of the combined management report.

function of chairman or spokesman. The Supervisory Board does not see any reason why it should change this established and successful cooperation.

- **No. 4.2.3 Paragraph 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, which had been determined before the initial public offering and thus before the application of the Code's recommendations, 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.

  This share option scheme does not contain an 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 Paragraph 2 Sentence 4. With regard to the recommended cap for the amount of compensation within the meaning of No. 4.2.3 Paragraph 2 Sentence 6, the share option program provides for a cap in relation to the number of shares which will be allocated upon the exercise. No cap is foreseen on the achievable amount upon the exercise of the share options. In the opinion of the Supervisory Board, such a cap would not be appropriate as it would interrupt the alignment of interest between the shareholders and the members of the Management Board. According to its rationale, the share-based compensation aims to achieve an adequate participation in the economic risks and chances of the company by the members of the Management Board. As no cap in relation to the variable component is determined, consequently also no cap in relation to the overall amount of the compensation is determined so that a deviation from No. 4.2.3 Paragraph 2 Sentence 6 is declared. 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 Paragraph 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 the 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 oriented toward the situation of the Company and its long-term positive development. Against this background, the Supervisory Board 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 a resolution was passed at the general meeting of ZALANDO SE on July 11, 2014 in accordance with Sections 286 (5), 314 (3) Sentence 1, 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 Paragraph 3 of the Code in individualized form.

06.1.2 CORPORATE GOVERNANCE

ZALANDO SE's corporate governance is determined in particular by applicable law, the recommendations set out in the German Corporate Governance Code and internal rules of procedure and guidelines.

Sustainable corporate governance is ensured by combining economic success with environmentally compatible and socially balanced activities. The company sees investments in corporate responsibility as an essential success factor for the business to maintain its social license to operate, and wants to engage employees, customers, and partners. Detailed information on Zalando's corporate responsibility strategy and activities can be found in the Section Corporate Responsibility on page 20.

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.

The company maintains 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 prevent in particular compliance infringements. Obligatory basic compliance trainings for employees as well as special training measures on specific topics such as antitrust law, data protection, and insider trading, reinforce awareness of the significant regulatory framework and internal rules and regulations and provide information regarding the established processes within the compliance management system.

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 bears overall responsibility for the proper functioning of the risk and compliance management system, and the Supervisory Board monitors the effectiveness of the system. As a benchmark to measure the maturity of its compliance management system, ZALANDO SE decided to instruct external auditors to conduct an external audit according to the IDW PS 980 Assurance Standard. The external auditors came to the conclusion that ZALANDO SE's compliance management system met (as of August 12, 2016) the requirements of the IDW PS980 Assurance Standard with regard to anti-corruption and antitrust.

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 company's strategy and its day-to-day implementation.

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 manager. The Management Board's collaboration with other corporate bodies and employee representatives is open and trusting for the benefit of the company.

The collaboration and responsibilities of the Management Board members are determined 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 consistently aligned to 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 chairperson of the Supervisory Board, informs him on the progress of the business and the situation of the company and of group entities and consults with him 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, and the members of the Management Board as well as their related parties, must be conducted at arm's length conditions and require Supervisory Board approval.

The Management Board currently does not have any female members. The term of office of the Management Board members runs until the end of November 2018, which thus exceeds the deadline for establishing a female representation target (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.

However, the Supervisory Board acknowledges and appreciates the importance of diversity. A diverse composition of management and supervising bodies can promote new perspectives in decision-making processes and discussions and help to further improve performance. With regard to the Management Board's composition, while qualification shall still be the decisive criterion, the Supervisory Board strives to adequately consider the international character and the various fields of core competences of the business model, while at the same time, paying attention to diversity, and in particular, to variety as regards professional experience and expertise and aiming for an appropriate consideration of women. While performance and qualification rather than age shall be the decisive factors when selecting Management Board members, such members should not be older than 65 when elected. Together with the Management Board, the Supervisory Board will implement long-term succession planning which considers the aforementioned principles.

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 2016 → 38
Lorenzo Grabau (deputy chairperson)
Lothar Lanz (chairperson since May 31, 2016)
Jørgen Madsen Lindemann (member since May 31, 2016)
Anders Holch Povlsen
Kai-Uwe Ricke
Dylan Ross
Alexander Samwer
Konrad Schäfers
Beate Siert
Cristina Stenbeck (member and chairperson until May 31, 2016)

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 fewer than two international members. The single most important factor for nominating a member to the Supervisory Board is the candidate's qualifications, 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 fewer than two women should be members of the Supervisory Board.

In accordance with Section 111 (5) AktG, the company has established a target of 22% female members on the Supervisory Board. The company anticipates fulfilling this target by the deadline of June 30, 2017. In fiscal year 2016, the company fulfilled the target until the resignation of Cristina Stenbeck with the conclusion of the annual general meeting on May 31, 2016 and the succession of Jørgen Madsen Lindemann for the remaining term. The Supervisory Board continues to strive to increase female representation on the Supervisory Board and agreed to intensify the search for qualified and suitable female candidates.

Furthermore, no fewer 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 fewer than two of such independent members representing the shareholders. Candidates who are likely to be confronted with an increased level of conflicts of interest 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. Except for the targeted female representation, the composition of the Supervisory Board of ZALANDO SE in fiscal year 2016 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; further meetings 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 conflicts of interest to the Supervisory Board, 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 appointment of the auditor. In addition, the audit committee handles questions regarding accounting, the discussion of financial reports, the approval of non-audit services by the auditor, monitoring the effectiveness of the internal risk management and control systems, the internal audit system, and questions regarding 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.

MEMBERS OF THE AUDIT COMMITTEE → 39
Lothar Lanz (chairperson until May 31, 2016 and thereafter member)
Kai-Uwe Ricke (chairperson since May 31, 2016 and previously deputy chairperson)
Lorenzo Grabau
Konrad Schäfers

The chairperson of the audit committee, Kai-Uwe Ricke, and the previous chairperson of the audit committee, Lothar Lanz, both have the requisite expertise in the area of accounting or auditing pursuant to Section 100 (5) AktG. Kai-Uwe Ricke and Lothar Lanz are also independent members of the Supervisory Board.

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 on a decision-making basis for the Supervisory Board.

MEMBERS OF THE REMUNERATION COMMITTEE	→ 40
Lorenzo Grabau (chairperson)	
Lothar Lanz (member since May 31, 2016)	
Alexander Samwer	
Beate Siert	
Cristina Stenbeck (member until May 31, 2016)	

NOMINATION COMMITTEE

The nomination committee comprises exclusively 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.

MEMBERS OF THE NOMINATION COMMITTEE	→ 41
Lorenzo Grabau (chairperson and member from May 31, 2016 until January 5, 2017)	
Lothar Lanz (chairperson and member since January 12, 2017)	
Anders Holch Povlsen	
Alexander Samwer	
Cristina Stenbeck (chairperson and member until May 31, 2016)	

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. Zalando has attached great importance to diversity and inclusion throughout the company and has always considered the representation of women in the workforce and in the management of Zalando to be an important aspect of a diverse employee structure. In the reporting year, women accounted for 47% of the workforce, while women occupied 33% of management positions. In order to 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 to 15% by June 30, 2017 and to further increase female representation in the next management level to 30%. More information on the company's targets and efforts to build an inclusive culture and to promote diversity is provided in the Section Inclusion & Diversity on page 27.

06.1.5 MANAGEMENT BOARD AND SUPERVISORY BOARD SHAREHOLDINGS

As of the end of fiscal year 2016, 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 10.04% of shares at the end of fiscal year 2016. The other Supervisory Board members cumulatively held less than 1% of shares.

A report on the transactions conducted during the fiscal year 2016 by persons discharging managerial responsibilities 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 AND EXPLANATORY REPORT[23]

The disclosures required according to Sections 289 (4), 315 (4) HGB are listed and explained below.

COMPOSITION OF ISSUED CAPITAL

With respect to the composition of the issued capital, please refer to the notes, Section 03.5.7 Notes to the Consolidated Statement of Comprehensive Income and Statement of Financial Position.

RESTRICTIONS RELATING TO VOTING RIGHTS OR THE TRANSFER OF SHARES

At the end of the reporting year, ZALANDO SE had 45,659 treasury shares that do not grant rights in accordance with Section 71b AktG. Under Section 136 AktG, the voting right of the shares affected is excluded by law.

SHAREHOLDINGS THAT EXCEED 10% OF VOTING RIGHTS

At the end of fiscal year 2016, Verdere S.àr.l. (Luxembourg) and Anders Holch Povlsen each 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 The Zalando Share – 2016 in Review on page 67.

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 Article 9 (1), Article 39 (2) and Article 46 of the SE Regulation, Sections 84 and 85 AktG and Article 7 (4) of the Articles of Association, the Supervisory Board appoints the members of the Management Board for a maximum term of five years. Reappointments are permissible. The Supervisory Board is authorized to revoke the appointment of a Management Board member for an important reason (for details, see Article 9 (1), Article 39 (2) of the SE Regulation, Section 84 AktG). According to Article 7 of the Articles of Association, the Management Board consists of one or more members. The number of members of the Management Board shall be determined by the Supervisory Board.

23) Takeover law disclosures pursuant to Sections 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 general meeting passes the resolutions to amend the Articles of Association. Unless this conflicts with mandatory legal provisions, according to Art. 20 (2) of the Articles of Association, amendments to the Articles of Association require a majority of two-thirds of the valid votes cast or, if at least one-half of the share capital is represented, the simple majority of the valid votes cast.

According to Article 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 Article 4 (3) and (4) of the Articles of Association, the Supervisory Board is authorized to adjust the wording of the Articles of Association to reflect the implementation of the increase of the registered share capital from authorized capital or after the term of the authorization has expired.

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

The Management Board of the company is authorized to increase the registered capital of the company until October 28, 2018, with the consent of the Supervisory Board, once or repeatedly by up to a total of EUR 2,865,775 by the issuance of up to 2,865,775 new no-par value bearer shares against contributions in cash (Authorized Capital 2013). The subscription rights of the shareholders are excluded. The Authorized Capital 2013 serves the implementation of acquisition rights (option rights) resulting from the options that have been granted to or agreed with employees or managing directors of the company and its affiliated companies by shareholders of the company or by the company prior to its conversion into a stock corporation or by affiliated companies between March 2009 and September 2013 (inclusive) and shares out of the Authorized Capital 2013 may be issued only for this purpose. The Management Board is authorized to determine, with the consent of the Supervisory Board, the further scope of the shareholders' rights pertaining to the shares to be newly issued and the further conditions of the issuance of the new shares; this shall also include the determination of the point in time when the new shares will participate in the profits, also for a previous fiscal year if legally admissible.

The Management Board is authorized to increase the registered share capital of the company until June 1, 2020, with the consent of the Supervisory Board, once or repeatedly by up to a total of EUR 94,694,847 by the issuance of up to 94,694,847 new no-par value bearer shares against contributions in cash and/or in kind (Authorized Capital 2015). The shareholders are, in principle, entitled to subscription rights. The Management Board is authorized to exclude the subscription right of the shareholders with the consent of the Supervisory Board in the cases described in the authorization. The total shares issued under the authorization with the exclusion of subscription rights must not exceed 20% of the registered share capital either at the time the authorization becomes effective or at the time it is exercised. Before the issue of shares with the exclusion of subscription rights, there shall be counted towards the aforesaid 20% limit (i) own shares sold with the exclusion of subscription rights, and (ii) shares to be issued to service bonds with conversion and/or option rights or obligations, insofar as the bonds were issued with the exclusion of shareholders' subscription rights on the basis of the authorization by the annual general meeting of June 2, 2015. The Management Board is authorized, with the consent of the Supervisory Board, to determine any further details of the capital increase, the further content of the rights arising from the shares and the conditions of the share issue.

The share capital of the company is conditionally increased by up to EUR 9,817,500 by issuance of up to 9,817,500 new bearer no-par value shares (Conditional Capital 2013). The Conditional Capital 2013 may only be used to fulfill the subscription rights which have been granted to the members of the Management Board of the company in connection with the Stock Option Program 2013 in accordance with the resolution of the general meeting of December 18, 2013, as amended by the company's general meeting of June 3, 2014 and of July 11, 2014. The conditional capital increase will only be implemented to the extent that such subscription rights have been or will be issued in accordance with the Stock Option Program 2013, the holders of the subscription rights exercise their rights and the company does not deliver treasury shares to satisfy the subscription rights. The Supervisory Board shall be exclusively competent regarding the granting and settlement of subscription rights to the members of the Management Board of the company.

The share capital of the company is conditionally increased by up to EUR 6,732,000 by issuance of up to 6,732,000 new bearer no-par value shares (Conditional Capital 2014). The Conditional Capital 2014 may only be used to fulfill the subscription rights which have been granted to employees of the company as well as members of the management bodies and employees of companies affiliated with the company in the meaning of Sections: 15 et seq. AktG in connection with the Stock Option Program 2014 in accordance with the resolution of the general meeting on June 3, 2014, as amended by the company's general meeting of July 11, 2014. The conditional capital increase will only be implemented to the extent that such subscription rights have been or will be issued in accordance with the Stock Option Program 2014, the holders of the subscription rights exercise their rights and the company does not deliver treasury shares to satisfy the subscription rights.

The share capital is conditionally increased by up to EUR 73,889,248 by issuance of up to 73,889,248 no-par value bearer shares (Conditional Capital 2015). The purpose of the conditional capital increase is to grant shares to the holders/creditors of convertible bonds and/or bonds with warrants or a combination of all of these instruments issued pursuant to the authorization on which a resolution was passed by the annual general meeting on June 2, 2015 under Agenda Item 10 lit. a) until June 1, 2020 by the company or any subordinate group company of the company and that grant a conversion or option right to new no-par value bearer shares of the company or provide for a conversion or option obligation or an option entitling the issuer to deliver shares to the extent that they are issued against cash contributions. The new shares are issued in each case at a conversion price or option price to be stipulated pursuant to the authorization resolution specified above. The conditional capital increase is carried out only to the extent to which use is made of conversion or option rights or conversion or option obligations are fulfilled or an option entitling the issuer to deliver shares is exercised and no other forms of fulfillment of delivery are used. The Management Board is authorized, with the consent of the Supervisory Board, to determine the further details of the implementation of conditional capital increases.

The share capital of the company is conditionally increased by up to EUR 5,098,440 against contribution in cash and in kind by the issuance of up to 5,098,440 new no-par value shares with a pro-rata share in the share capital of EUR 1.00 to fulfill subscription rights for shares of the company (Conditional Capital 2016). The Conditional Capital 2016 may only be used once or several times to fulfill the subscription rights which have been granted until May 30, 2021 – partly as a component of stock appreciation rights – in accordance with the resolution of the annual general meeting of May 31, 2016. The new shares shall be subscribed either against a cash payment in the amount of the lowest issue price in the meaning of Section 9 (1) AktG or against the contribution of the participants' remuneration entitlements under the stock appreciation rights granted to them, which are granted in accordance with the resolution of the annual general meeting of May 31, 2016. The conditional capital increase will be implemented only to the extent that subscription rights or stock appreciation rights with subscription rights have been or will be issued in accordance with the resolution of the annual general meeting of May 31, 2016, the holders of subscription rights exercise their rights and the company grants no own shares or cash payments for the satisfaction of the subscription rights.

The new shares from Conditional Capital 2013, Conditional Capital 2014, Conditional Capital 2015 and Conditional Capital 2016 shall participate in the profits from the beginning of the fiscal year in which they are issued; notwithstanding this, the new shares shall participate in the profits from the beginning of the fiscal year preceding the fiscal year in which such new shares are created, if the annual general meeting has not yet adopted a resolution on the appropriation of the distributable profit of the fiscal year preceding the fiscal year in which such new shares are created.

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 Items 7 and 8 of the company's annual general meeting agenda for June 2, 2015, which was published in the 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 supplemented 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 the share in the company 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 material agreements that are subject to the condition of a change of control involve the revolving credit facility and various reverse factoring agreements. 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[24]

BASIC FEATURES OF THE REMUNERATION SYSTEM FOR MEMBERS OF ZALANDO'S MANAGEMENT BOARD

Total remuneration consists of two elements – fixed base salary and 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 the appropriate level of remuneration is driven by each member's responsibilities and personal contribution, as well as the company's economic situation, performance and future development. The industry context, as well as the internal remuneration structure, are 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 sections 286 (5), 314 (3) Sentence 1 and 315a (1) HGB in conjunction with section 61 of the SE Regulation.

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 2016 (prior year: EUR 0.6m).

In addition, the members of the Management Board were entitled to non-cash payments (such as the use of company cars) and other benefits totaling EUR 0.05m in fiscal year 2016 (prior year: EUR 0.06m). 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 2016.

The members of the Management Board participated in the option programs SOP 2011 and SOP 2013 in the fiscal year 2016 (as they did in the prior year).

24) 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.

The Call Option Programs (COPs) were granted to one member of the Management Board, the members of top management, and other selected managers of the group. In fiscal year 2015, all options of the member of the Management Board had been exercised.

The SOP 2011 was granted to the Management Board in 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 issuance of options under the scope of SOP 2011 is closed.

The options granted to the beneficiaries vest in tranches. The options vest if the beneficiary serves as a member of the Management Board of Zalando for the vesting period of the respective tranche. The last 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:

DEVELOPMENT OPTIONS 2011 → 42

	Number	Weighted average exercise price (in EUR)
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 expired 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**
Outstanding options as of Jan 1, 2016	**2,730,200**	**5.65**
Options granted during the reporting period	0	–
Options forfeited during the reporting period	0	–
Options exercised during the reporting period	187,000	5.65
Options expired during the reporting period	0	–
Outstanding options as of Dec 31, 2016	**2,543,200**	**5.65**
Options vested as of Dec 31, 2016	**1,870,000**	**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 2016 amounted to EUR 30.93 (prior year: EUR 26.34).

The SOP 2013 includes call options granted to the members of the Management Board in 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 have 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 tranches over a period of five years. The condition of a tranche relating to the period of service is met if the beneficiary holds the office as a member of the Management Board of Zalando over the vesting period of the respective 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 options are 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:

DEVELOPMENT OPTIONS 2013 → 43

	Number	Weighted average exercise price (in EUR)
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**
Outstanding options as of Jan 1, 2016	**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	–

→ 44

	Number	Weighted average exercise price (in EUR)
Options expired during the reporting period	0	–
Outstanding options as of Dec 31, 2016	**9,817,500**	**15.63**
Options vested as of Dec 31, 2016	**5,856,840**	**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 five years and 354 days as of the reporting date (prior year: six 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 to 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 0.6m in fiscal year 2016 (prior year: EUR 0.7m).

BENEFITS → 45

	Management Board members			
IN EUR	2016	2016 (min)	2016 (max)	2015
Fixed compensation	600,000	600,000	600,000	600,000
Fringe benefits	48,023	48,023	48,023	56,156
Total	**648,023**	**648,023**	**648,023**	**656,156**
One-year variable compensation	0	0	0	0
Multi-year variable compensation	0	0	0	0
Total	**648,023**	**648,023**	**648,023**	**656,156**
Pension expense	0	0	0	0
Total	**648,023**	**648,023**	**648,023**	**656,156**

The following table shows allocations for fiscal 2016 of fixed compensation, fringe benefits, 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 2016.

ALLOCATION → 46

	Management Board members	
IN EUR	2016	2015
Fixed compensation	600,000	600,000
Fringe benefits	48,023	56,156
Total	**648,023**	**656,156**
One-year variable compensation	0	0
Multi-year variable compensation	**7,924.554**	**6,758,180**
SOP 2011*	7,924.554	4,928,852
COPs*	0	1,829,328
SOP 2013	0	0
Total	**8,572.577**	**7,414,336**
Service cost	0	0
Total	**8,572.577**	**7,414,336**

*) Exercise of options

REMUNERATION OF SUPERVISORY BOARD MEMBERS

The remuneration of Supervisory Board members is governed by Article 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, 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 hold office as members or chairpersons for only 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.

Remuneration for fiscal year 2016 breaks down as follows:

SUPERVISORY BOARD REMUNERATION → 47

IN EUR	2016	2015
Cristina Stenbeck (until May 31, 2016)	41,370	100,000
Lorenzo Grabau	75,000	75,000
Lothar Lanz (since February 10, 2014)	100,000	100,000
Kai-Uwe Ricke (since June 3, 2014)	89,658	75,000
Alexander Samwer	50,000	50,000
Anders Holch Povlsen	50,000	50,000
Benjamin Krümel (until June 2, 2015)	–	20,959
Dr. Christoph Stark (until June 2, 2015)	–	20,959
Christine de Wendel (until June 2, 2015)	–	20,959
Konrad Schäfers (since June 2, 2015)	50,000	29,178
Dylan Ross (since June 2, 2015)	50,000	29,178
Beate Siert (since June 2, 2015)	50,000	29,178
Jørgen Madsen Lindemann (since May 31, 2016)	29,315	–
Total	**585,342**	**600,411**

07.1 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, 2016. 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 Sec. 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, complies with the legal requirements and as a whole provides a suitable view of the Company's position and suitably presents the opportunities and risks of future development.

Berlin, February 24, 2017
Ernst & Young GmbH

Wirtschaftsprüfungsgesellschaft

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

08.1 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 and other non-operating one-time effects.

ADJUSTED EBITDA

We define adjusted EBITDA as EBITDA before equity-settled share-based payment expense and other non-operating one-time effects.

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 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 CREATOR

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

CONTENT MANAGEMENT SYSTEM

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

CORPORATE RESPONSIBILITY

Corporate Responsibility (CR) is a business approach that takes responsibility for social and environmental impacts resulting out of company activity. The goal is to create long-term value for shareholders, other stakeholders and communities by embracing the opportunities associated with economic, environmental and social developments.

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.

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.

INTEGRATED COMMERCE

Integrated Commerce connects the offline with the online world: Various technical solutions provide our fashion partners with an opportunity to become part of the Zalando platform. They can place their products that are either stored in their own warehouses or in their bricks and mortar retail stores on the platform or flexibly accept orders from Zalando customers and close the sale from their own local stores.

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 smartphones or mobile phones 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.

PURPOSE

Our shared purpose is what unites us all – it lies at the core of everything we do: reimagine fashion for the good of all. The shared purpose sets the course for the company and explains why Zalando exists and what influence we want to have on the world around us.

SCOPE 1
Scope 1 emissions are direct greenhouse gas emissions from owned or controlled sources.

SCOPE 2
Scope 2 emissions are indirect emissions from the generation of purchased energy.

SCOPE 3
Scope 3 emissions are all indirect emissions which are not included in scope 2 and that occur in the value chain of the reporting company, including both upstream and downstream emissions.

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.

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

ZALON
Zalon is our curated shopping service in which professional stylists in Germany, Austria and Switzerland compile an individual look that is tailored to our customers.

08.2 IMPRINT

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PHOTO CREDITS

Zalando image pool, Christian Klant, Claudius Pflug, Craig & Karl, Jarosław Gaszyński

PRINT

EBERL Print, Immenstadt

Statement relating to the future
The financial statements and combined management report contain statements that relate to the future and are based on assumptions and estimates made by the management of ZALANDO SE. Even if the management is of the opinion that these assumptions and estimates are appropriate, the actual development and the actual future results may vary from these assumptions and estimates as a result of a variety of factors. These factors include, for example, changes to the overall economic environment, the statutory and regulatory conditions in Germany and the EU and changes in the industry. ZALANDO SE makes no guarantee and accepts no liability for future development and the actual results achieved in the future matching the assumptions and estimates stated in this annual report. It is neither the intention of ZALANDO SE nor does ZALANDO SE accept a special obligation to update statements related to the future in order to align them with events or developments that take place after this report is published.

The financial statements and combined management report are available in English. If there are variances, the German version has priority over the English translation. It is available for download in both languages at https://corporate.zalando.de/de/ir.

zalando