FINANCIAL STATEMENTS AND COMBINED MANAGEMENT REPORT 2017

Y O U R

ZALANDO

Content

1.1

Balance Sheet

Assets

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IN EUR M	Dec 31, 2017	Dec 31, 2016
A. Fixed assets		
I. Intangible assets		
Internally generated software	29.9	24.2
Industrial rights and similar rights and assets and licenses in such rights and assets	10.9	9.9
Prepayments and internally generated software under development	48.3	35.7
	89.1	*69.8*
II. Property, plant and equipment		
Buildings on third-party land	0.1	0.0
Plant and machinery	2.2	2.3
Other equipment, furniture and fixtures	27.5	21.7
Prepayments and assets under construction	0.9	1.0
	30.7	*25.0*
III. Financial assets		
Shares in affiliates	498.0	346.0
Equity investments	2.5	21.0
	500.5	*367.0*
	620.3	*461.8*
B. Current assets		
I. Inventories		
Raw materials and supply	5.7	3.2
Merchandise	678.9	553.1
Prepayments	2.5	1.1
	687.1	*557.4*
II. Receivables and other assets		
Trade receivables	387.2	303.2
Receivables from affiliates	202.2	51.6
Receivables from associates	0.0	3.5
Other assets	131.0	306.8
	720.4	*665.1*
III. Securities	475.5	477.9
IV. Cash on hand and bank balances	409.8	391.4
	2,292.8	*2,091.8*
C. Prepaid expenses	14.3	15.4
D. Deferred tax assets	0.0	4.5
Total	**2,927.4**	**2,573.5**

Equity and Liabilities

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IN EUR M	Dec 31, 2017	Dec 31, 2016
A. Equity		
I. Subscribed capital	247.4	247.3
Less nominal value of treasury shares Conditional capital: EUR 95.5m (prior year: EUR 95.5m)	–0.2	–0.1
	247.2	*247.2*
II. Capital reserve	1,188.1	1,171.4
III. Unappropriated profit	130.4	25.3
	1,565.7	1,444.0
B. Cash contribution for capital increase	3.3	0.0
C. Government grants	0.2	0.1
D. Provisions		
Tax provisions	3.1	8.3
Other provisions	247.8	228.9
	250.9	*237.2*
E. Liabilities		
Prepayments received on account of orders	31.5	8.1
Trade payables	873.8	735.8
Liabilities to affiliates	63.0	49.5
Other liabilities thereof for taxes: EUR 61.6m (prior year: EUR 45.1m)	118.8	97.1
	1.087.1	*890.5*
F. Deferred income	3.7	1.7
G. Deferred tax liabilties	16.5	0.0
Total	**2,927.4**	**2,573.5**

2.1 Income Statement

Statement of Profit and Loss
for the Year Ending December 31, 2017

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IN EUR M		Jan 1 – Dec 31, 2017	Jan 1 – Dec 31, 2016
1.	Revenue	4,479.6	3,650.7
2.	Other own work capitalized	36.5	45.2
3.	Other operating income thereof income from currency translation: EUR 33.5m (prior year: EUR 22.6m)	48.9	50.7
		4,565.0	*3,746.6*
4.	Cost of materials		
	a) Cost of raw materials, consumables and supplies and of purchased merchandise	–2,512.4	–2,028.9
	b) Cost of purchased services	–21.5	–14.4
5.	Personnel expenses		
	a) Wages and salaries	–242.2	–197.7
	b) Social security, pension and other benefit costs including old-age pensions: EUR 0.1m (prior year: EUR 0.1m)	–36.6	–29.7
6.	Amortization of intangible assets and depreciation of property, plant and equipment	–37.4	–27.0
7.	Other operating expenses expenses arising from currency translation: EUR 36.3m (prior year 22.1m)	–1,545.6	–1,245.9
		–4,395.7	*–3,543.6*
8.	Income from profit transfers	6.6	4.4
9.	Expenses from transfer of losses	0.0	–0.3
10.	Other interest and similar income income derived from affiliates: EUR 5.7m (prior year: EUR 2.5m) and discounting of long-term provisions: EUR 0.0m (prior year: EUR 0.1m)	17.6	3.7
11.	Interest and similar expenses	–24.0	–12.2
		0.2	*–4.4*
12.	Income taxes expenses resulting from changes in deferred taxes EUR 21.0m (prior year: EUR 41.8m)	–64.4	–65.7
13.	**Earnings after tax / net profit for the year**	105.1	132.9
14.	Unappropriated profit from the prior year (prior year: loss carried forward)	25.3	–107.5
15.	**Unappropriated profit**	**130.4**	**25.3**

3.1 Notes to the Financial Statements

3.1.1 General Disclosures on Content and Classification of the Financial Statements

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

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

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

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

3.1.2 Accounting and Valuation Methods (Section 284 (2) No. 1 HGB)

The accounting and valuation methods applied comply with the provisions of the HGB (Sections 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 Section 248 (2) HGB to capitalize **internally generated intangible assets** and amortizes these assets if they have a limited life. Amortization is charged using the straight-line method over an estimated economic useful life of three years on average. 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

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	Years
Leasehold improvements	7–15
Plant and machinery	3–14
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 Section 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.

Prepayments are stated at their nominal value.

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 Section 253 (4) HGB.

Cash and cash equivalents are recognized at nominal value.

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

Deferred taxes stem from temporary differences between the carrying amounts of assets, liabilities, prepaid expenses and deferred income in the statutory accounts and their tax accounts and from unused tax losses. Deferred taxes are measured using a tax rate of 30.6% (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 – when 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 judgement.

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 mean closing rate in accordance with Section 256a HGB. The realization principle (Section 252 (1) No. 4 Clause 2 HGB) and cost method (Section 253 (1) Clause 1 HGB) have been applied for receivables and liabilities with 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, 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 Section 254 HGB.

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

In addition, forward exchange contracts have been agreed upon that are intended for subsidiaries and subsequently resold to these companies. Accordingly, no valuation units have been designated for these companies. If these derivative financial instruments have negative market values, a provision for potential losses is recognized in profit or loss.

3.1.3 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 36.5m (prior year: EUR 45.2m) were capitalized in the fiscal year. As in the prior year, development costs were incurred solely for the development of software. The immaterial research costs were directly expensed.

List of Shareholdings classified as Fixed Financial Assets

The company held shareholdings in the following affiliates and equity investments as of December 31, 2017:

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

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Share of equity held by[1]	Share in capital in % 2017	Net income/loss for 2017 (in EUR m)	Equity (in EUR m)
Directly	100.0	4.7	43.6
Directly	100.0	–1.0	74.5
Directly 2	99.0 1.0	6.3	64.1
Directly 2	99.0 1.0	4.5	97.5
Directly 2	99.0 1.0	1.2	73.9
Directly	100.0	0.0	0.8
Directly 2	99.0 1.0	0.7	0.8
Directly 2	99.0 1.0	0.4	1.1
Directly 2	99.0 1.0	0.4	1.4
Directly	100.0	0.1	0.0
Directly	100.0	0.1	0.0
Directly	100.0	4.6	0.3
Directly	100.0	–7.8	9.0
Directly	100.0	–4.5	6.3
Directly	100.0	–0.3	2.3
Directly 2	99.9 0.1	0.0	–0.1
Directly	100.0	–2.1	–5.2
Directly	100.0	–2.7	–5.4
Directly	100.0	2.8	0.0
15	100.0	0.0	0.0
1	100.0	0.2	0.2
21	100.0	0.0	0.1

No.	Company	Company domicile	Currency
23	ifansho Holding GmbH	Berlin	EUR
24	nugg.ad GmbH	Berlin	EUR
25	Zalando Logistics Operations Polska sp. z o.o.	Warsaw, Poland	PLN
26	Tradebyte Software GmbH[2]	Ansbach	EUR
27	Zalando Logistics Polska sp. z o.o.	Warsaw, Poland	PLN
28	Zalando Lounge Logistics SE & Co. KG[4]	Berlin	EUR
29	zLabels Trading Southern Europe S.L.	Elche, Spain	EUR
30	zLabels LP GmbH	Berlin	EUR
31	Zalando Payments GmbH	Berlin	EUR
32	Ifansho Portugal, Unipessoal Lda	Lisbon, Portugal	EUR
33	KICKZ Never Not Ballin' GmbH	Munich	EUR
34	Lindentor 308. V V GmbH	Berlin	EUR
35	Terrehill Investments sp. z o.o.	Warsaw, Poland	PLN
36	Anatwine Ltd.[3]	Cheltenham, United Kingdom	GBP
37	Anatwine, Inc.	New Castle, Delaware, USA	USD
38	Zalando OpCo Polska sp. z o.o.	Warsaw, Poland	PLN
39	zLabels Creation & Sales GmbH & Co. KG	Berlin	EUR
40	zLabels Platform Services GmbH & Co. KG	Berlin	EUR
Associated companies			
41	Lenewblack S.A.S.	Paris, France	EUR
42	FashionTrade.com B.V.	Amsterdam, The Netherlands	EUR

1) The number refers to the number of the company
2) Net income 2017 before profit transfer
3) Fiscal year differs from the calendar year (June 30, 2016)
4) ZALANDO SE is General Partner

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Share of equity held by[1]	Share in capital in % 2017	Net income / loss for 2017 (in EUR m)	Equity (in EUR m)
Directly	100,0	–1.2	7.7
19	100,0	0.8	5.5
2	100,0	–1.4	24.6
Directly	100,0	0.4	1.2
2	100,0	–0.3	30,5
Directly 2	99.0 1.0	0.1	2.4
1	100.0	0.0	0.0
1	100.0	0.0	0.0
Directly	100.0	–1.2	6.2
Directly	100.0	–0.1	3.0
Directly	100.0	–6.3	3.3
Directly	100.0	0.0	0.0
Directly	100.0	0.0	0.0
Directly	97.5	–8.2	8.2
36	100.0	0.0	0.0
2	100.0	0.1	10.8
1 30	99.0 1.0	0.3	0.3
1 30	99.0 1.0	0.5	1.2
23	33.9	0.0	0.0
23	50.0	–0.5	0.5

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 18.8m (prior year: EUR 11.6m) and loans of EUR 183.3m (prior year: EUR 40.0m).

All loans have a remaining term of more than one year (previous year: EUR 9.6m).

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

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

Bank Balances

Bank balances of EUR 0.0m (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.

Equity

Subscribed Capital

247,384,898 ordinary bearer no-par value shares (Stückaktien) are issued as of the reporting date (prior year: 247,255,868). 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 2017, subscribed capital was increased by a total of EUR 0.1m to EUR 247.4m 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 → 07

	Amount in EUR m	Number of no-par value shares	Purpose
Authorized capital 2013	2.7	2,736,745	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

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.

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 June 2017, ZALANDO SE repurchased 17,000 treasury shares at an average price of EUR 43.53, which corresponds to a notional share in share capital of EUR 17,000 or 0.01% of share capital. In November 2017, ZALANDO SE repurchased 143,773 treasury shares at an average price of EUR 41.73, which corresponds to a notional share in share capital of EUR 143,773 or 0.06% of share capital. In total, the company holds 230,773 treasury shares (notional share in share capital of EUR 230,773) as of December 31, 2017, and thus 0,09% of share capital.

Share-Based Payments

The company uses the Stock Option Plans (“SOP”): SOP 2011, SOP 2013, SOP 2014, Employee Incentive Plan (“EIP”) and Virtual Stock Option Plan (“VSOP”) 2017 for stock-based compensation, that were granted to the Management Board and senior members of the management team.

The stock option plans are as follows:

Stock Option Plans

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Program	Pending options	Weighted average exercise price (in EUR)	Vesting period
SOP 2011: Board	1,851,300	5.65	3 years
SOP 2013: Board	9,817,500	15.63	4 years
SOP 2014: Management Team	6,296,912	19.58	4 years
EIP 2016, 2017: Management Team	1,923,777	31.65	4 years
VSOP 2017: Management Team	870,000	42.24	3 years

Capital Reserve

The capital reserve amounts to EUR 1,188.1m (prior year: EUR 1,171.4m). In the fiscal year, the capital reserve included an amount of EUR 22.7m stemming from share-based equity-settled payment awards (prior year: EUR 20.8m). The capital reserve includes an amount of EUR 8.9m (prior year: 2.4m) pertaining to treasury shares.

Furthermore, the capital reserve increased by EUR 0.5 million in 2013 as part of a capital increase from the authorized capital.

Unappropriated Profit

Unappropriated Profit → 09

IN EUR M		
As of January 1, 2017 / 2016	25.3	–107.5
Net profit of the year	105.1	132.9
As of December 31, 2017 / 2016	**130.4**	**25.3**

Voting Rights Notifications

Pursuant to Section 160 (1) No. 8 AktG, the company was notified of disclosures on equity investments in accordance with Section 33 (1) or (2) AktG (previous Section 21 (1) or (1a) WpHG) and in accordance with Section 40 (1) WpHG (previous Section 26 (1) 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 3.1m (prior year: EUR 8.3m) relate to income taxes.

Other provisions totaling EUR 247.8m were recognized (prior year: EUR 228.9m). They primarily relate to expected returns (EUR 89.1m), outstanding invoices for fulfillment expenses (EUR 75.6m), marketing expenses (EUR 42.3m), other outstanding invoices (EUR 21.9 Mio.), as well as personnel-related expenses (EUR 10.3m).

Liabilities

Under reverse factoring agreements, suppliers' claims against Zalando totaling EUR 328.9m were transferred to various factors as of December 31, 2017 (December 31, 2016: EUR 282.3m); thereof EUR 255.2m (prior year: EUR 216.1m) transferred to banks. They are included within the trade liabilities.

Liabilities to affiliates amount to EUR 63.0m (prior year: EUR 49.5m) as of the reporting date. These mainly relate to trade payables.

Other liabilities of EUR 118.8m (prior year. EUR 97.1m) relate mainly to VAT liabilities, liabilities related to gift vouchers 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.

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 16.5m (prior year: deferred tax asset of EUR 4.5m). The deferred tax assets of EUR 8.6m (prior year: EUR 23.9m) are mostly comprised of the valuations of current foreign currency receivables and payables (as a result of unrealized exchange rates) and the different valuation of provisions (such as restoration obligations, potential losses, and vacation).

The deferred tax assets on tax loss carryforwards contained in the previous year have been used up completely. Deferred tax assets include deferred tax assets of EUR 25.1 million (previous year: EUR 19.4 million), that mainly result from the capitalization of internally generated intangible assets.

Deferred Tax Assets and Liabilities

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	Deferred tax assets		Deferred tax liabilites		Net balance	
IN EUR M	Dec 31, 2017	Dec 31, 2016	Dec 31, 2017	Dec 31, 2016	Dec 31, 2017	Dec 31, 2016
Intangible assets	0.0	0.0	–22.8	–17.6	–22.8	–17.6
Property, plant and equipment	0.0	0.0	–0.4	–0.8	–0.4	–0.8
Trade and other receivables	3.0	0.1	–1.8	–0.7	1.2	–0.6
Provisions	5.6	2.3	–0.1	–0.2	5.5	2.2
Unused tax losses	0.0	21.4	0.0	0.0	0.0	21.4
Total	**8.6**	**23.9**	**–25.1**	**–19.4**	**–16.5**	**4.5**
Netting	–8.6	–19.4	8.6	19.4	0.0	0.0
Total recognized deferred tax assets and liabilities	**0.0**	**4.5**	**–16.5**	**0.0**	**-16.5**	**4.5**

Contingent Liabilities as Defined by Section 251 HGB

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

Contingent Liabilities

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IN EUR M	Dec 31, 2017	Dec 31, 2016
Contingent liabilities from rental guarantees thereof to affiliates	26.2 (26.2)	25.8 (25.8)
Joint loan liabilities thereof to affiliates	11.2 (11.2)	14.4 (14.4)
Contingent liabilities from payment guarantees thereof to affiliates	8.6 (8.6)	6.0 (6.0)
Contingent liabilities from credit guarantees thereof to affiliates	0.0 (0.0)	2.5 (2.5)
	46.0	**48.7**

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 is low.

Other Financial Obligations Pursuant to Section 285 No. 3a HGB

There were other financial obligations of EUR 201.0m (prior year: EUR 70.8m) (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 → 12

IN EUR M	
Rental agreements	200.5
Lease agreements	0.5
Total	**201.0**

Rental and lease agreements have a residual term of up to 12 years.

There are also other financial obligations from purchase obligations for merchandise from the 2018 spring/summer season as of the reporting date.

Derivative Financial Instruments

As of the reporting date, forward exchange contracts totaled EUR 1,288.1m (prior year: EUR 1,104.4m), some of which displayed a positive market value of EUR 22.5m (prior year: EUR 6.4m) while others displayed a negative market value of EUR 7.6m (prior year: EUR 8.6m).

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, SEK and GBP of EUR 7.7m (prior year: EUR 44.3m) with forward exchange contracts totaling EUR 7.7m (prior year: EUR 44.3m) (positive market value: EUR 0.0m (prior year: EUR 0.9m), negative market value: EUR 0.2m (prior year: EUR 0.3m)) 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 68.9m (prior year: EUR 162.8m) with forward exchange contracts totaling EUR 68.9m (prior year: EUR 162.8m) (positive market value: EUR 0.0m (prior year: EUR 4.1m), negative market value: EUR 1.0m (prior year: EUR 1.1m)) 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 receivables from the sale of goods to customers in CHF, GBP, NOK, PLN and SEK with a volume of EUR 104.1m (prior year: EUR 11.3m) with forward exchange contracts totaling EUR 104.1m (positive market value: EUR 5.2m (prior year: EUR 0.1m); negative market value: EUR 1.0m (prior year: EUR 0.2m)) 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, GBP, NOK, PLN and SEK with a volume of EUR 990.9m (prior year: EUR 885.9m) with forward exchange contracts totaling EUR 990.9m (prior year: EUR 885.9m) (positive market value: EUR 17.2m (prior year: EUR 1.2m); negative market value: EUR 3.1m (prior year: EUR 7.1m)) 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.

USD forward exchange contracts intended for subsidiaries have been agreed upon and are therefore not included in any valuation unit within the meaning of Section 254 HGB. These forward exchange contracts have a volume of EUR 116.5m (previous year: EUR 0.0m) (positive market value: EUR 0.0m (previous year: EUR 0.0m), negative market value: EUR 1.5m (previous year: EUR 0.0m)). A provision for potential losses has been recognized.

3.1.4 Notes to the Income Statement

Revenue

In fiscal year 2017, around 53% of revenue related to the region Germany/Austria/Switzerland (DACH) (see following table).

Revenue by Segment → 13

IN EUR M	2017		2016		Change
DACH*	2,350.1	52.5%	1,952.0	53.5%	398.1
Rest of Europe**	2,129.5	47.5%	1,698.7	46.5%	430.8
ZALANDO SE	**4,479.6**	**100%**	**3,650.7**	**100%**	**828.9**

*) As in fiscal year 2016, DACH countries include Germany, Austria and Switzerland
**) As in fiscal year 2016, 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 4,292.7m), the provision of third-party services (EUR 105.0m) as well as revenues from intercompany charges (EUR 81.9m).

Income Relating to Other Periods

Other income comprises income relating to other periods of EUR 8.3m (prior year: EUR 22.3m) mainly from the reversal of provisions. Other expenses comprise expenses relating to other periods of EUR 0.1m (prior year: EUR 1.2m).

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 2017 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 → 14

IN EUR M	Jan 1 – Dec 31, 2017	Jan 1 – Dec 31, 2016
Deferred taxes	–21.0	–41.8
Current taxes	–43.4	–23.9
Total	**–64.4**	**–65.7**

Restrictions on Distribution Pursuant to Section 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 51.6m (prior year: EUR 40.2m).

3.1.5 Other Notes

Number of Employees

An annual average of 4,062 (prior year: 3,523) persons were employed by the company in the fiscal year:

Average Number of Employees → 15

Commercial	1,373
Technology	1,470
Others	1,219
Total	**4,062**

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 (IFRS) as adopted by the EU (Section 315a HGB). The consolidated financial statements are published in the Bundesanzeiger [German Federal Gazette].

Audit Fees

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

Subsequent Events

The entry in the commercial register resolved on 4 December 2017, has increased the capital as of January 18, 2018.

Members of the Supervisory Board

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

Members of the Supervisory Board → 16

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
Anders Holch Povlsen	CEO of Bestseller A / S, Brande, Denmark	December 12, 2013
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
Shanna Prevé	Managing Director, Google	May 31, 2017
Dominik Asam	CFO, Infineon Technologies AG	May 31, 2017

The term of office of Lorenzo Grabau and Kai-Uwe Ricke expired on May 31, 2017.

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 0.8m in fiscal year 2017 (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

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Name of Supervisory Board Member	Mandates pursuant to Section 125 (1) Sentence 5 AktG
Dominik Asam	Infineon Technologies Austria AG, Villach, Austria (Member of the Supervisory Board) Infineon Technologies Americas Corp., Delaware, USA (Member of the Board of Directors) Infineon Technologies Asia Pacific Pte., Ltd., Singapore (Member of the Board of Directors) Infineon Technologies China Co., Ltd., PRC (Member of the Board of Directors) Until May 2017: EPCOS AG (Member of the Supervisory Board)
Lorenzo Grabau (until May 31, 2017)	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)
Lothar Lanz	Axel Springer SE (Member of the Supervisory Board) Bauwert AG (Member of the Supervisory Board) Home24 AG (Member of the Supervisory Board, Chairperson) Kinnevik AB (Member of the Board of Directors) TAG Immobilien AG (Member of the Supervisory Board, Deputy Chairperson) Since January 2018: Dermapharm Holding SE, Grünwald (Member of the Supervisory Board)

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Name of Supervisory Board member	Mandates pursuant to Section 125 (1) Sentence 5 AktG
Anders Holch Povlsen*	Intervare A / S 25169158, Denmark (Member of the Board of Directors, Chairperson) Nemlig.com A / S, Denmark (Member of the Board of Directors, Chairperson) 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, Chairperson)
Shanna Prevé	–
Kai-Uwe Ricke (member until May 31, 2017)	United Internet AG, Montabaur (Member of the Supervisory Board) *Mandates in affiliated companies:* Until March 2017: United Internet Ventures AG, Montabaur (Member of the Supervisory Board) 1&1 Internet SE, Montabaur (Member of the Supervisory Board) 1&1 Telecommunication SE, Montabaur (Member of the Supervisory Board) 1&1 Mail & Media Applications SE, Montabaur (Member of the Supervisory Board, Chairperson) Since October 2017: Drillisch AG (Member of the Supervisory Board, Deputy Chairperson) Until January 2018: EUN Holdings LLP, Delaware (Member of the Board of Directors) Delta Partners, Dubai (Member of the Board of Directors) SUSI Partners AG, Switzerland (Member of the Board of Directors) Virgin Mobile CEE B.V., Netherlands (Member of the Board of Directors) Since May 2017: STRATO AG (Member of the Supervisory Board) Since November 2017: Cash Credit Limited, Cayman Islands (Member of the Board of Directors)
Jörgen Madsen Lindemann**	Turtle Entertainment GmbH (Member of the Advisory Board)
Alexander Samwer	Home24 AG, Germany (Member of the Supervisory Board)
Beate Siert	–
Dylan Ross	–
Konrad Schäfers	–

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

Members of the Management Board

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

Members of the Management Board

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

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

Current and Past Seats of the Management Board

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Name of Management Board member	Mandates Pursuant to Section 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 2017 (prior year: EUR 0.6m). No new options were granted to the Management Board in fiscal year 2017 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 the past fiscal year of EUR 130,416,631.36 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 2017 is published on the company's website (https://corporate.zalando.com/).

Signing of the 2017 Financial Statements

Berlin, February 26, 2018

The Management Board

Robert Gentz David Schneider Rubin Ritter

3.2 Attachment A to the Notes

Statement of Changes in Fixed Assets for Fiscal Year 2017

IN EUR M	Acquisition and production cost				
	Jan 1, 2017	Additions	Disposals	Reclassifications	Dec 31, 2017
Intangible assets					
Internally generated software	62.2	11.5	0.0	14.7	88.4
Industrial rights, similar rights and assets and licenses in such rights and assets	30.1	7.2	0.6	0.3	37.0
Prepayments and internally generated software under development	35.7	27.6	0.0	–15.0	48.2
	128.0	*46.3*	*0.6*	*0.0*	*173.7*
Property, plant and equipment					
Buildings on third-party land	0.2	0.1	0.0	0.0	0.3
Plant and machinery	2.7	0.4	0.0	0.0	3.1
Other equipment, furniture and fixtures	43.4	15.1	3.4	0.8	55.9
Prepayments and assets under construction	1.0	0.7	0.0	–0.8	0.9
	47.3	*16.3*	*3.4*	*0.0*	*60.2*
Financial assets					
Shares in affiliates	346.1	132.8	1.6	20.8	498.1
Equity investments	21.0	2.3	0.0	–20.8	2.5
	367.1	*135.1*	*1.6*	*0.0*	*500.6*
	542.4	**197.6**	**5.6**	**0.0**	**734.5**

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Accumulated amortization, depreciation and write-downs				Carrying amounts	
Jan 1, 2016	Additions	Disposals	Dec 31, 2017	Dec 31, 2017	Dec 31, 2016
38.0	20.5	0.0	58.5	29.9	24.2
20.2	6.5	0.6	26.1	10.9	9.9
0.0	0.0	0.0	0.0	48.3	35.7
58.2	*27.0*	*0.6*	*84.6*	*89.1*	*69.8*
0.2	0.0	0.0	0.2	0.1	0.0
0.4	0.5	0.0	0.9	2.2	2.3
21.7	9.9	3.2	28.4	27.5	21.7
0,0	0,0	0,0	0,0	0.9	1.0
22.3	*10.4*	*3.2*	*29.5*	*30.7*	*25.0*
0.1	0.0	0.0	0.1	498.0	346.0
0.0	0.0	0.0	0.0	2.5	21.0
0.1	*0.0*	*0.0*	*0.1*	*500.5*	*367.0*
80.6	**37.4**	**3.8**	**114.2**	**620.3**	**461.8**

3.3 Attachment B to the Notes

Disclosures Pursuant to Section 160 (1) No. 8 AktG

The company was notified pursuant to Section 33 (1) or (2) WpHG (formerly Section 21 (1) or (1a) WpHG) ["Wertpapierhandelsgesetz": German Securities Trading Act] of shareholdings held in it and makes the following disclosures in accordance with Section 40 (1) WpHG (formerly Section 26 (1) WpHG):

Allianz Global Investors GmbH, Frankfurt/Main,Germany, informed us pursuant to Section 33 (1) and 38 (1) No. 2 WpHG (formerly Section 21 (1) and Section 25 (1) No.2 WpHG) that its share of voting rights in ZALANDO SE, Berlin, Germany, had exceeded the threshold of 3% of the voting rights on September 26, 2017, amounting to 3.07% (on this date, with 3.02% of the voting rights (7,478,411 voting rights) allocated to the company pursuant to Section 33 (1) WpHG (formerly Section 21 WpHG) and 3.02% of the voting rights of the company pursuant to Section 34 WpHG (formerly Section 22 WpHG) and the share of voting rights due to instruments Section 38 (1) No. 2 WpHG (formerly Section 25 (1) No. 2 WpHG) amounts to 0.04% (this corresponds to 108,820 voting rights). Complete ownership chain of subsidiaries beginning with the person/entity ultimately controlling the group was stated as follows: Allianz SE, Allianz Asset Management AG, Allianz Global Investors GmbH.

Zerena GmbH (i. Gr.), Grünwald, Germany, informed us pursuant to Section 33 (1) WpHG (formerly Section 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 May 22, 2017, amounting to 4.99% (12,350,601 voting rights) on this date, with 4.99% of the voting rights (12,350,601 voting rights) allocated to the company pursuant to Section 34 WpHG (formerly Section 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 (4.99% of the voting rights), Rocket Internet SE.

Anders Holch Povlsen, informed us pursuant to Section 33 (1) WpHG (formerly Section 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 April 21, 2017, amounting to 10.09% (24,957,078 voting rights) on this date, with 10.09% of the voting rights (24,957,078 voting rights) allocated to the company pursuant to Section 34 WpHG (formerly Section 22). 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, Aktieselskabet af 1.2.2017 (10,04% of the voting rights).

Baillie Gifford & Co., Edinburgh, UK, informed us pursuant to Section 33 (1) WpHG (formerly Section 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 Section 34 WpHG (formerly Section 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).
Baillie Gifford & Co., Edinburgh, UK, informed us pursuant to Section 33 (1) WpHG (formerly Section 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 had 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 Section 34 WpHG (formerly Section 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).

Vanguard World Funds, Wilmington, Delaware, United States of America, informed us pursuant to Section 33 (1) WpHG (formerly Section 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 Section 33 (1) WpHG (formerly Section 21 WpHG).

TEV Global Invest I GmbH, Mülheim an der Ruhr, Germany, informed us pursuant to Section 33 (1) WpHG (formerly Section 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 Section 33 (1) WpHG (formerly Section 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 Section 34 Sentence 1 No. 1 WpHG (formerly Section 22 (1) Sentence 1 No. 1WpHG)). 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 Section 33 (1) WpHG (formerly Section 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 Section 34 Sentence 1 No. 1 WpHG (formerly Section 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 Section 33 (1) WpHG (formerly Section 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 Section 34 Sentence 1 No. 1 WpHG (formerly Section 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 Section 33 (1) WpHG (formerly Section 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 Section 34 Sentence 1 No. 1 WpHG (formerly Section 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 Section 33 (2) WpHG (formerly Section 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 ABwas allocated 15.03% (36,788,510 voting rights) as of the date of the announcement pursuant to Section 34 (2) WpHG (formerly Section 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 Section 33 (2) WpHG (formerly Section 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 Section 34 Sentence 1 No. 1 WpHG (formerly Section 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 Section 34 (2) WpHG (formerly Section 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 Section 33 (2) WpHG (formerly Section 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 Section 34 Sentence 1 No. 1 WpHG (formerly Section 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 Section 34 (2) WpHG (formerly Section 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 Section 33 (2) WpHG (formerly Section 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 Section 34 Sentence 1 No. 1 WpHG (formerly Section 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 Section 34 (2) WpHG (formerly Section 22 (2) WpHG) by the following shareholder, whose share of voting rights in ZALANDO SE amounts to 3% or more: Global Founders GmbH.

4.1 Background to the Group

- Zalando is Europe's leading online platform for fashion
- ZALANDO SE and its 40 subsidiaries thus cover the entire supply chain of an online retailer
- Continued strategic investments to cement partnerships with customers and suppliers and in infrastructure
- Targeted investments in logistics infrastructure are an essential part of this
- Sustainability is integrated in Zalando's daily business

4.1.1 Business Model

Zalando is Europe's leading online fashion platform for women, men and children. The Berlin-based company offers its customers a one-stop convenient shopping experience with an extensive selection of fashion articles including shoes, apparel and accessories, with free delivery and returns.

Zalando's assortment of almost 2,000 international brands ranges from popular global brands, fast-fashion and local brands, and is complemented 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 localized offering addresses the distinct preferences of its customers in each of the 15 European markets being served: Austria, Belgium, Denmark, Finland, France, Germany, Italy, Luxembourg, the Netherlands, Norway, Poland, Spain, Sweden, Switzerland and the United Kingdom. The logistics network with five centrally located fulfillment centers allows Zalando to efficiently serve its customers throughout Europe, supported by fulfillment centers in Northern Italy, France and Sweden with a focus on local customer needs. Zalando's management believes that the integration of fashion, operations and online technology provides the capability to deliver a compelling value proposition to both customers and fashion brand partners.

4.1.2 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 the vast majority of group revenues. In addition to the parent company, Zalando is comprised of 40 subsidiaries that operate in the areas of fulfillment, customer service, product presentation, advertising, marketing, and private labels developed in-house. ZALANDO SE and its subsidiaries represent the entire value chain of an online retailer. ZALANDO SE has 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 2.6.

The Management Board of ZALANDO SE comprises three members, who are responsible for the group's strategy and management. Rubin Ritter is responsible for the Zalando online shop, finance, corporate governance, and corporate communication. Robert Gentz is responsible for the off-price and emerging businesses, and for human resources, strategy, and technology infrastructure. David Schneider's area of responsibility comprises the Partner Solutions and zLabels businesses, and the Zalando brand. 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 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 schemes are detailed in the remuneration report. The remuneration report and takeover disclosures pursuant to Sections 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 online shop, by breaking it down geographically into the regions DACH (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.

4.1.3 Corporate Strategy

With EUR 423bn[1] in annual retail spent in 2016, the European fashion market is one of the largest and most attractive consumer markets in the world. In the last few years, we have witnessed a digitalization wave sweep over the entire fashion industry. A wide variety of industry players have embraced digital platforms and strategies in order to seize the opportunities arising from double-digit online growth rates. While the size of the overall fashion industry in Europe remained largely stable between 2010 and 2016, online fashion sales have more than doubled during the same period, expanding from EUR 24bn to EUR 51bn[2]. Growth has been driven by new technology, as it plays a key role in matchmaking supply- and demand-side players in the fashion industry. This has made it possible to connect the entire fashion ecosystem: customers, brands, retailers, manufacturers, stylists, content creators, logistics, and service providers. But most importantly, by opening up new opportunities to co-create value, technology is establishing new and more efficient ways to consume, produce, and invest in fashion.

1) Euromonitor, Europe excl. Russia; fashion excl. beauty category
2) Euromonitor, Europe excl. Russia; fashion excl. beauty category

Our Opportunity to Reimagine Fashion for the Good of All

The fashion market presents an exciting and attractive opportunity, but it is also a market that is characterized by specific challenges that create structural inefficiencies, raising operational costs and introducing pain-points throughout the entire customer shopping journey:

- Limited end-to-end transparency on inputs and production processes
- Faster fashion cycles
- Growing complexity of global supply chains
- Increasing importance of sustainability compliance practices
- Rapidly changing customer preferences
- Lack of accurate sizing and fitting solutions

We strive to find solutions that produce the best results for all in the fashion industry, be it customers, fashion brands, manufacturers, stylists, content creators, logistics or service providers. Every single stakeholder plays an important role – directly or indirectly – in Zalando's growing ecosystem.

We are well positioned to meet the challenges and seize the opportunities in the fashion industry. With a robust and growing presence in 15 markets, Zalando has become Europe's leading online fashion destination to more than 23m active customers. Our expanding technology and logistics infrastructure, combined with our customer reach – now surpassing 2.5bn visits per year – grant us access to almost 2,000 brands, for many of which we are their largest retail account. Our fashion competence is virtually unmatched, enabling us to position ourselves as brands' most trusted partner and customers' go-to fashion companion.

More specifically, we rely on the following strengths:

Our Focus on the Fashion Category and Localized Solutions

Given the idiosyncratic nature of the fashion ecosystem, successful industry players are required to build unique capabilities at each stage of the value chain. In this regard, our focus on the fashion category and strong partnerships with multiple fashion stakeholders has enabled us to develop a broad and comprehensive understanding of the needs of the fashion ecosystem. In turn, we leverage this expertise to design unique and compelling fashion experiences that delight customers and to develop industry-specific solutions that help brand partners grow.

To maintain a competitive edge in our home market, we leverage our central core strengths – advanced technological capabilities, vast fulfillment network, and direct relationship with suppliers – and focus on building highly localized solutions for each of our 15 European markets. We are committed to tailoring our services to local tastes and to making Europe accessible for fashion brands and retailers. Our thorough understanding of local specificities will continue to be a core differentiator.

Our Value Proposition for Customers

Zalando has gained customers' trust by consistently offering a unique fashion experience that provides inspiration, empowers customers, caters to their different needs, and gives them confidence in their personal fashion choices. A fashion companion that connects customers with fashion in new, fun, and inspiring ways by:

- Offering an up-to-date, unique, and comprehensive assortment of in-season fashion merchandise
- Building the most fashion-competent destination via discovery and inspiration, catalog curation, as well as content and selection freshness
- Providing unique and vivid storytelling behind trends, brands, and products
- Delivering an unmatched level of personalization and relevance
- Offering a smooth, better-than-offline experience: the most convenient way to discover, check-out, pay, receive, and return fashion items

Our Value Proposition for Fashion Brands and Suppliers

Zalando has built credibility among fashion brands as a trusted fashion-competent and technology partner. We help fashion brands and retailers grow and tackle some of the most challenging and complex issues inherent in online fashion by:

- Providing technology and operations infrastructure that enables brands and retailers to optimize results across the entire value chain (e.g. through more accurate sales forecasts, insights into customer buying behavior, targeted advertising, and smart fulfillment services)
- Empowering brands to present themselves in a brand equity accretive, engaging way and enabling them to localize their content in every single country in which we operate
- Granting brands access to a vibrant fashion ecosystem where they can connect, create, and share value with different fashion stakeholders
- Offering instant access to the European fashion market through our unprecedented customer reach across Europe

Zalando’s Platform Vision

Our platform strategy outlined in 2016 remains largely unchanged. We remain convinced that a platform business model provides the best approach to becoming the operating system of the fashion world, with multiple ways of integrating numerous fashion contributors and stakeholders, catering to their specific needs. We are dedicated to making sure our platform enables fashion stakeholders to grow with us and reach their full potential by offering them a wide array of digital and infrastructure services such as analytics, advertising, and fulfillment.

By moving towards a platform business model, we acknowledge that the best and most sustainable business solutions are being built jointly between multiple stakeholders in the fashion industry, and not solely within the walled gardens of a single company. From this perspective, we believe that by attracting a diverse set of key players active in the fashion ecosystem (e.g. fashion brands, manufacturers, stylists, content creators, logistics, and service providers), we can enhance our inspiration capabilities and convenience proposition at scale through:

- Overall increased availability of styles and sizes
- Access to the most sought-after brands
- Integration of credible niche/specialty players with unique content and assortment
- Long-tail and local inventory with volumes catering for the needs of specific fashion lovers
- Scalable personalization and more inspiring content, not limited to Zalando’s production capacity (e.g. media partners, stylists)
- Tailored sizing and fitting advice provided by innovative technology partners
- Additional options to access local inventory and fast delivery solutions

Our strategy focuses on igniting and sustaining self-reinforcing network effects on the Zalando platform. By facilitating partners' ability to connect to our platform, we increase our merchandise selection and offering, inspirational content and curation, access to fashion expertise, and the range of delivery options available to customers. This, in turn, expands our customer reach, and vice-versa. The greater the number of players plugged into our platform, the better our ability to match and facilitate interactions between customers and partners at scale. Interactions and the subsequent data generated are at the heart of our platform business model.

Our Strategic Investment Areas

Investment in Our Customer Proposition

We will continue investing in four key customer propositions to strengthen our positioning as the most fashion-competent destination.

Assortment

In pursuit of our mission to offer a "one-stop" shopping experience for all, we will expand into the beauty category to ensure that our customers can truly buy a complete look across all price points and from head to toe. Furthermore, to remain customers' preferred fashion companion, we will continue to invest in ensuring that we always offer the broadest assortment selection, latest fashion trends, sustainable options, and the widest range of in-season fashion brands to cater to our customers' diverse fashion tastes and budgets. Additionally, we leverage zLabels, our private label offering, to create inspiring fashion brands and products to meet customers' specific demands and further enhance our product selection. We combine our assortment offer with continual inspiration and personalization to help our customers navigate the ever-changing world of fashion.

Convenience

We continue to invest in more personalized delivery experiences to take our customers on the smoothest fashion purchase journey possible with ultra-fast delivery, flexible payment options, and a hassle-free return process.

Brand

Our determination to enhance our brand equity is closely intertwined with our commitment to further strengthen our relationships with customers and suppliers. We invest in expanding our capabilities and boosting our fashion competence and credibility in order to ensure that we consistently meet our customers' and suppliers' expectations. Building stronger customer and supplier relationships is at the core of our brand equity, and it is what makes us one of the leading fashion destinations in Europe. We are also investing in strategic brand marketing initiatives to increase customer engagement. One such initiative is the Bread & Butter event, which acts as a platform for brands and consumers to directly interact with each other during the event and digitally.

Multiple Channels/Apps/Devices

As a customer-centric company, we invest in our capabilities to be present where the customer is, to innovate in order to tackle emerging and foreseeable customer needs and pain-points. It is about meeting the customer anytime, anywhere: be it on our mobile app, our desktop site, social apps, or other connected devices.

Investment in Our Supplier Proposition

To maintain our position as our fashion suppliers' preferred and most trusted e-commerce partner, we will continue investing in the following areas.

Wholesale Solutions

We invest in optimizing our wholesale capabilities by driving innovations through data and automation, and empowering our fashion partners to take more active ownership in selecting and pushing the right merchandise on the Zalando platform.

Partner Program

We invest in providing our fashion partners with an alternative solution through which they own inventory and retain control over pricing and assortment. Our goal is to reach a 20% – 30% share of enabled transactions.

Off-Price Solutions

We invest in developing both online and offline distribution channels to help brands effectively manage excess inventory across Europe without diminishing their brand equity.

Digital Services

We invest in providing a one-stop shop with end-to-end e-commerce services to help our partners connect with customers and successfully navigate the complex fashion ecosystem through advertising and media products, stock integration, payment solutions, customer analytics, and content management.

Fulfillment Services

We invest in expanding our fulfillment infrastructure to provide our brand partners with highly customized and reliable solutions through Zalando Fulfillment Solutions (ZFS), enabling them to sell their merchandise through our platform without having to worry about logistics concerns.

Investments in Our Supporting Infrastructure: Technology and Operations

Our investments in technology and operations infrastructure strengthen our core foundation on which we develop compelling customer and supplier propositions.

Technology

We are investing in optimizing our logistics operations, enhancing our technology capabilities, and expanding our services powered by artificial intelligence (AI). Proprietary technology solutions form the backbone of Zalando and drive all workflows from purchasing to ordering processes and fulfillment.

The technology underpinning our warehouse processes is constantly being upgraded to ensure that we stay ahead of the competition. We are committed to building some of the most-sophisticated fulfillment centers dedicated to online fashion. Accordingly, we are investing heavily to automate order fulfillment processes and to scale up our "Hub & Spoke" system in order to optimize performance and reduce delivery times. We are also investing to leverage the wealth of data available to us. For instance, fast replenishment algorithms are being introduced to provide recommendations on what fashion items to replenish and in what quantity.

Our focus is on expanding our technology talent pool by providing an attractive and innovative work environment. We recently announced the opening of our third technology hub outside of Germany, in Lisbon. The Lisbon Team will focus on developing an enhanced digital experience for customers visiting Zalando. This follows the expansion of our Technology Teams in Dublin, Helsinki, Dortmund, and Berlin. The focus of operations in Ireland is deep-data science and engineering, involving the development of measures related to building a real-time insight platform around fashion. In Finland, the Technology Team works on many of the cornerstones of the Zalando platform, including personalization and innovative customer-facing products. While in Germany, our Dortmund hub is working on optimizing the payment flow from checkout to refund, and the small-but-excellent Zalando Research Team in Berlin is focused on applying cutting-edge research to tackle challenges that customers face throughout the shopping journey.

Our investments in artificial intelligence are geared towards strengthening our search, personalization, and sizing capabilities. We are striving to enhance our understanding of user intention in order to improve sorting and personalized search. The focus of personalization is on building the infrastructure needed to extend product recommendations to personalized fashion advice. Furthermore, we have set up a dedicated Sizing Team to develop AI methods to improve sizing advice for customers and generate sizing insights for brand partners.

Operations

Our focus is on enhancing our pan-European fulfillment network by opening up new facilities. Over the coming year, we plan to quickly ramp-up our new fulfillment center in Poland and to initiate new warehouse projects in Poland and Italy. Additional capacity will enable us to fuel our wholesale growth and further enable the Partner Program ramp-up through the scale up of our Zalando Fulfillment Solutions (ZFS). ZFS will in turn improve our delivery speed and help our partners to maintain or improve customer experience standards in all of our 15 markets across Europe. Our employees are the key to our operational success. Our commitment to create a healthy corporate culture and fair working conditions will continue to guide us as we strive to expand our European footprint.

We are confident that our platform strategy provides a systematic approach to building sustainable and differentiating advantages throughout the online fashion value chain. In the coming years, we will continue our efforts to further scale up our platform by connecting more fashion stakeholders, developing new technology solutions to tackle current and emerging fashion needs, and increasing our level of personalization to address customers’ growing expectations.

Given the rapid pace and scale of transformation in the online fashion industry, we are aware that our vision and strategy will need to evolve accordingly. The magnitude of the opportunities and challenges ahead is great, but we trust that our relentless customer-centric focus combined with our demonstrated ability to learn and innovate will enable us to stay ahead of the curve.

4.1.4 Corporate Responsibility

Our purpose “Reimagine fashion for the good of all,” is based on our ambition to tackle the endemic challenges that our industry is facing. These challenges include a lack of transparency in increasingly complex supply chains and related risks for people and the environment. As a company, we want to do our bit for a more sustainable fashion industry by providing a systemic contribution beyond our own business. We believe that our contribution is most effective if we combine our strengths in technology, fashion, and logistics and actively engage our customers, partners and employees.

Of course, at first we had to do our homework to get the basics right. However, we feel that we have reached a point where we could go one step further with our sustainability strategy (do.STRATEGY) and have defined additional strategic visions and targets in four key areas:

- Employees: we want to provide a workplace for the future and impact the future of work. This implies offering our employees a culture of continuous growth and development as well as an innovative and attractive work environment.
- Fashion: we want to contribute to a more sustainable fashion industry. It is our ambition to develop our online shop into a leading online destination for sustainable fashion and to further improve the social and environmental footprint of our private label products.
- Environment: we want to decouple our ecological footprint from our economic growth. To this end, we developed our first climate protection strategy and strive to take sustainable packaging to the next level.
- Corporate citizenship: we want to reimagine how corporates contribute to solving societal challenges. In line with the social Zalando principle, we intend to strategically invest 1% of our EBT in existing solutions for societal impact, e.g. to increase transparency in the supply chain, and help them scale.

We see a pressing urgency in addressing the challenges of our industry together with our partners, and we are eager to learn and iterate while striving towards a systemic contribution. At the same time, we are convinced that our sustainability strategy is also a key element for our future business success.

Additional information regarding our sustainability strategy and our separate combined non-financial report in accordance with Section 289b (1) and (3) and Section 315b (1) and (3) HGB (German Commercial Code) which is published together with the combined management report on the Company's website (https://corporate.zalando.com/en/) is provided in the separate section 1.2 Corporate Responsibility[3] of the annual report.

4.1.5 Management System

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

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

- **Ratio of mobile site visits to total site visits:** users are making greater use of mobile devices to access the internet. In our effort to offer customers the opportunity to enjoy high-quality shopping on their mobile devices, Zalando continues to develop and refine its mobile websites

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

and apps. As a result, the ratio of shop visits from mobile devices to the total number of shop visits increased by around 5.1 percentage points in 2017, rising from 65.6 in 2016 to 70.7.

- **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 preceding 12 months (based on the reporting date) is considered active. Compared to the prior year, the number of active customers increased by 3.2m, rising from 19.9m to 23.1m in 2017.
- **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 2017, the number of orders placed increased from 69.2m in 2016 to 90.5m.
- **Average number of orders per active customer:** the average number of orders placed by active customers during the last twelve months totaled 3.9 as of December 31, 2017 (prior year: 3.5). This KPI is an important indicator of the trust customers place in the company and is also influenced by customer age and shopping channel.
- **Average basket size:** similar to the number of orders placed, the average basket size has a direct effect on the revenue of the group. The average basket size (after returns) decreased slightly in fiscal year 2017 from EUR 66.6 to EUR 64.5. It is influenced by assortment composition, customer age, and shopping channel. Young customers who prefer fast fashion articles and shopping mobile tend to shop more frequently, but with a lower basket size.

4.1.6 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 2017 included: on-site personalization initiative, Fashion Insights Platform, Smart Product Platform, Fashion Content Platform, product availability, Search & Personalization, same day delivery, 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 value and process chain.

Development work at Zalando is performed by teams of developers that are organized by the respective function or line, for example Fashion Store, Payments, Partner Solutions, Zalon, zLabels, Off-Price.

In 2017, the group recognized development costs of EUR 51.2m (prior year: EUR 57.7m), of which EUR 36.8m relate to prepayments and assets under development (prior year: EUR 36.4m). The increase in development costs is attributable to the enhancement of the above-mentioned software and new technical projects.

Research costs were immaterial.

4.2 Report on Economic Position

- European internet retailing and online fashion sales once again grow considerably more strongly than the economy as a whole
- Zalando closes a successful fiscal year and captures shares in all markets
- Revenue growth of 23.4% to EUR 4,489m is driven by all segments
- EBIT stands at EUR 187.6m, the EBIT margin at 4.2%
- Cash flow from operating activities comes to EUR 193.7m

4.2.1 Macroeconomic and Sector-Specific Environment

The online shopping mega-trend continued in 2017. The European online retail sector grew by 13.5% in 2017, while the general retail industry grew just 3.0%[4]. A similar trend was found in the fashion sector.

The European fashion retail sector closed 2017 with a trading volume of around EUR 422bn, up 1.4%[5] nominally. This was outperformed by the online fashion market, which grew much faster (11.9%) compared to the previous year, closing at EUR 56bn.

Consistent with the European landscape, the German overall retail market grew at 2.0% with online sales increasing by 10.7% in 2017[6]. Fashion trading volumes increased by a mere 0.6%[7] as a result of a decline in consumer footfall in brick-and-mortar stores to a volume of EUR 76bn[8]. It is reported that footfall dropped by 2.0% in 2017 from 2016[9]. Nevertheless, online fashion retail sales grew by almost 15.0% in 2017, to a market value of around EUR 14bn[10].

Due to the positive outlook for European fashion and online retail, we believe our business model is in a favorable position. This advantage can be attributed to some sector-specific factors.

- Technological advancements are the key drivers behind the second wave of e-commerce. Advancements especially in machine learning will lead to a further increase in the online fashion business. Market penetration of internet fashion is expected to continue to increase at the expense of traditional brick-and-mortar retailers.
- Moreover, the increased usage of mobile devices and their extended range of applications have influenced the strong growth in online retail trade, including online fashion. Smartphones and tablets provide retail access anytime and nearly anywhere. Due to this convenience, consumers increasingly use them to shop for fashion. Forecasts for mobile commerce demonstrate that this trend is likely to continue. The annual growth rate for mobile retailing in Europe is expected to be 18.4% in the coming year and about 15.2% for the coming five years[11].
- Europe remains a very attractive fashion market with a high concentration of affluent customers. In Europe, purchasing power increased by 1.9%[12] in 2017 compared to 2016. Moreover, in our key market Western Europe the per capita spending on fashion amounted to EUR 764 in 2017[13], which is significantly higher than in most places in the world.
- Lastly, average gross margins for online fashion retailers range between 40% and 60%[14], considerably more attractive than average margins in other online product categories, such as electronics.

4) Euromonitor, Europe excl. Russia
5) Euromonitor, Europe excl. Russia
6) Euromonitor, Europe excl. Russia
7) Euromonitor, Europe excl. Russia
8) Euromonitor, Europe excl. Russia
9) Textilwirtschaft
10) Euromonitor, Europe excl. Russia
11) Euromonitor, Europe excl. Russia
12) Gfk, Europe
13) Euromonitor, Western Europe
14) Company information, average gross margins of selected publicly listed e-commerce companies in 2014 including Asos, Yoox and Boohoo based on publicly available information.

4.2.2 Business Development

ZALANDO SE, Europe's leading online platform for fashion, looks back on a successful business performance in fiscal year 2017. Compared to 2016, the group reported 23.4% revenue growth in the period to EUR 4,489m (prior year: EUR 3,639m). All segments contributed to revenue growth: revenues in the DACH region increased by 18.3%, in Rest of Europe by 25.7% and in the Other segment by 45.0%. Zalando continued to gain market share in all its markets.

Apparel remained Zalando's biggest product category, followed by shoes and sports. The customer base continued to grow strongly, reaching 23.1 million active customers at the end of 2017 (19.9 million at the end of 2016). In 2017, Zalando continued to invest in the three areas that are essential for the company's success: customers, partners and infrastructure.

As in previous years, Zalando put customer satisfaction as its main objective and invested significantly in its customer proposition, including assortment, convenience, brand and multiple channels, apps and devices.

Throughout the year, notable additions to Zalando's brand portfolio included Oysho and Stradivarius (Inditex), Pull&Bear (H&M), Nudie Jeans and Armani. The Zalando brand raised its visibility and reach, supported for example by the "Man Box"/James Franco and the "Remix Fashion" campaigns. The number of available items increased to more than 300,000, further enriching the breadth and depth of Zalando's well-curated offering.

Zalando introduced Zalando Plus, a new program that offers customized premium services like faster delivery and pickup of returns on demand. The first phase ran by invite only in four different cities in Germany: Berlin, Leipzig, Frankfurt and Hannover. Zalando Plus introduced benefits along the entire customer journey: members get early access to sales and benefit from faster delivery, including sameday, and from the new return on demand service, which enables customers to have their returns picked up within two hours at a time and location of their convenience.

Zalando also strengthened the Partner Program, in which brands can integrate their stock directly into the Zalando Fashion Store. Partners now have access to the Zalando customers in 13 countries where the Partner Program operates. In 2017, Zalando introduced Zalando Fulfillment Solutions, a service through which our partners have the option to handle their entire logistics through us. This service allows partners to leverage Zalando's logistics expertise and network, improving customer satisfaction and scaling their business internationally.

Investment in infrastructure underpins Zalando's strength in technology and enables the expansion of its platform strategy. Almost 2,000 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 almost 2,000 dedicated technology engineers who develop and drive all critical processes in-house. Among other achievements, this allowed Zalando to significantly improve its mobile offering. An impressive 70.7% of visits to the Zalando Fashion Store were conducted from a mobile device in 2017.

Zalando's operational structure provides the best fulfillment experience for online fashion in Europe. In 2017, the company successfully launched a fulfillment center in Szczecin (Gryfino, Poland) and satellite warehouses in Paris (Moissy-Cramayel) and Stockholm (Brunna).

Similar to existing locations in Mönchengladbach, Erfurt and Lahr, the new fulfillment center in Szczecin (Gryfino) has around 130,000 square meters of space. The location is operated by a third-party service provider. Once fully ramped up, it will supply all 15 markets of the Zalando Logistic network but especially customers in Poland, Germany and the Nordics.

A new satellite warehouse near Paris was put into operation in March 2017. This fulfillment center caters to the needs of Zalando's French customers and fulfills the increasing demands of one of the biggest fashion markets in Europe. In addition to reducing delivery times, the new fulfilment center enables a more efficient management of the distribution chain in France.

The new Stockholm fulfillment center, which is still under construction, started first test operations in the fourth quarter of 2017 and will ensure that Zalando's strong and growing Nordic customer base experiences a more convenient consumer journey and receives orders faster. The fulfillment center in the Stockholm area will decrease lead times significantly. Once the fulfillment center is fully ramped up, Zalando will be able to cut lead times in half across the Nordic region (to 1–2 days for Sweden and Denmark, and 1–3 days for Norway and Finland).

Zalando now has seven fulfillment centers, including three outside Germany. New sites in the logistics network are also planned near Verona, Italy, and close to Lodz, Poland.

The number of employees increased by about 26%, strongly driven by the headcount increase in Operations to more than 9,289 employees. This reflects the growth of our logistics infrastructure.

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

The Zalando share is listed in various important domestic and foreign indices, including the German MDAX, the STOXX Europe Mid 200 Index and the broader European STOXX Europe 600 Index. The Zalando share closed 2017 at EUR 44.12.

4.2.3 Economic Situation

Financial Performance of the Group

The consolidated income statement for 2017 shows strong revenue growth above prior year's level, coupled with solid profitability. We believe investing in growing our market share now is the value-maximizing strategy for the company.

Consolidated Income Statement → 22

IN EUR M	Jan 1 – Dec 31, 2017	As % of revenue	Jan 1 – Dec 31, 2016	As % of revenue	Change
Revenue	4,489.0	100.0%	3,639.0	100.0%	0.0pp
Cost of sales	–2,529.6	–56.4%	–2,029.6	–55.8%	–0.6pp
Gross profit	**1,959.4**	**43.6%**	**1,609.4**	**44.2%**	**–0.6pp**
Selling and distribution costs	–1,530.8	–34.1%	–1,223.7	–33.6%	–0.5pp
Administrative expenses	–242.9	–5.4%	–191.3	–5.3%	–0.2pp
Other operating income	11.8	0.3%	16.7	0.5%	–0.2pp
Other operating expenses	–9.9	–0.2%	–4.1	–0.1%	–0.1pp
Earnings before interest and taxes (EBIT)	**187.6**	**4.2%**	**207.0**	**5.7%**	**–1.5pp**

Other Consolidated Financial Information → 23

IN EUR M	Jan 1 – Dec 31, 2017	Jan 1 – Dec 31, 2016	Change
EBIT margin (as % of revenue)	4.2%	5.7%	–1.5pp
Adjusted EBIT (excl. equity-settled share-based payments and non-operative one-time effects)	215.1	216.3	–1.2
Adjusted EBIT margin (as % of revenue)	4.8%	5.9%	–1.2pp
EBITDA* (in EUR m)	246.4	255.3	–8.9
EBITDA margin (as % of revenue)	5.5%	7.0%	–1.5pp
Adjusted EBITDA (excl. equity-settled share-based payments and non-operative one-time effects)	273.8	264.5	9.3
Adjusted EBITDA margin (as % of revenue)	6.1%	7.3%	–1.2pp

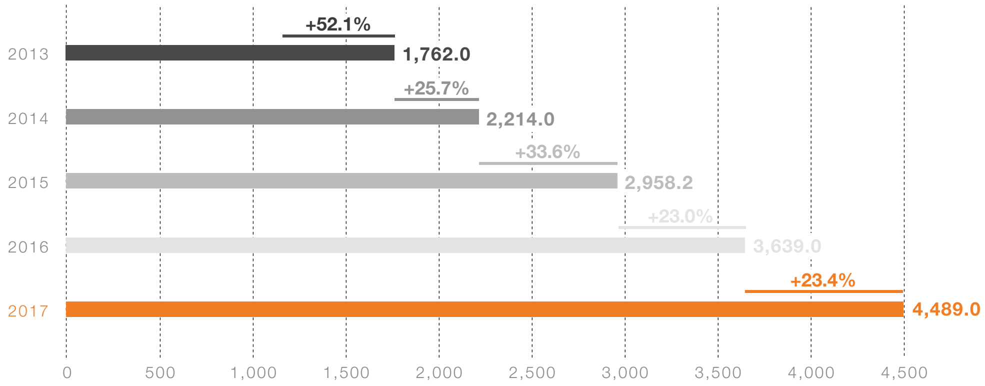
*) EBITDA is the EBIT before depreciation and amortization of property, plant and equipment and intangible assets. Depreciation and amortization of property, plant and equipment and intangible assets amounts to EUR 58.7m in 2017 (prior year: EUR 48.2m).

Development of Revenue

Annual Revenue Growth (2013 – 2017)

→ 01

IN EUR M

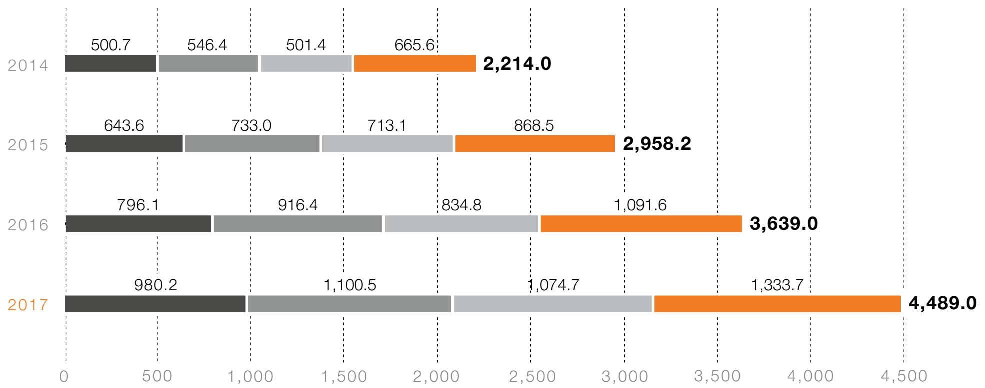


In 2017, Zalando increased its revenue by 23.4% or EUR 850.0m from EUR 3,639.0m to EUR 4,489.0m.

Revenue by Quarter (2014 – 2017)

→ 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 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 1,333.7m, group revenue in the fourth quarter was up 22.2% on the comparable period of the prior year (Q4 2016: EUR 1,091.6m).

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

Key Performance Indicators

→ 24

KEY PERFORMANCE INDICATORS*	Jan 1 – Dec 31, 2017	Jan 1 – Dec 31, 2016	Change
Site visits (in millions)	2,563.5	1,991.6	28.7%
Mobile visit share (as % of site visits)	70.7	65.6	5.1pp
Active customers (in millions)	23.1	19.9	16.2%
Number of orders (in millions)	90.5	69.2	30.8%
Average orders per active customer	3.9	3.5	12.6%
Average basket size (in EUR)	64.5	66.6	–3.2%
Revenue (in EUR m)	4,489.0	3,639.0	23.4%
Adjusted fulfillment cost ratio (as % of revenue)	25.9	23.2	2.7pp
Adjusted marketing cost ratio (as % of revenue)	7.9	10.3	–2.4pp
EBIT (in EUR m)	187.6	207.0	–9.4%
EBIT margin (as % of revenue)	4.2	5.7	–1.5pp
Adjusted EBIT (in EUR m)	215.1	216.3	–0.6%
EBITDA (in EUR m)	246.4	255.3	–3.5%
EBITDA margin (as % of revenue)	5.5	7.0	–1.5pp
Adjusted EBITDA (in EUR m)	273.8	264.5	3.5%
Adjusted EBITDA margin (as % of revenue)	6.1	7.3	–1.2pp
Net working capital (in EUR m)	–62.4	–127.6	–51.1%
Cash flow from operating activities (in EUR m)	193.7	275.8	–29.8%
Capex (in EUR m)	–243.9	–181.7	34.2%
Free cash flow (in EUR m)	–85.0	63.7	<–100.0%

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

Zalando’s most important performance indicators are revenue, EBIT, adjusted EBIT, capex, the number of active customers and the average number of orders per active customer. These are forecast for fiscal year 2018 in section 2.5 Outlook.

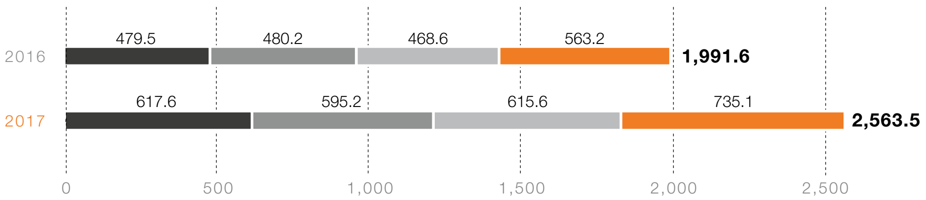
The rise in revenue is mainly attributable to a larger customer base and an increase in the number of orders. As of December 31, 2017, the group had 23.1 million active customers. This corresponds to an increase of 16.2% compared to the prior year. The larger customer base ordered more frequently compared to the prior year with the average number of orders per active customers rising 12.6%. The higher number of customer orders, which increased by 30.8%, was driven in particular by a 28.7% increase in site visits. The considerable rise in these revenue drivers was enabled through our continued focus on investing in the consumer and brand proposition as well as in our technology and operations infrastructure.

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 5.1 percentage points to 70.7% in 2017.

Site Visits by Quarter (2016 – 2017)

→ 03

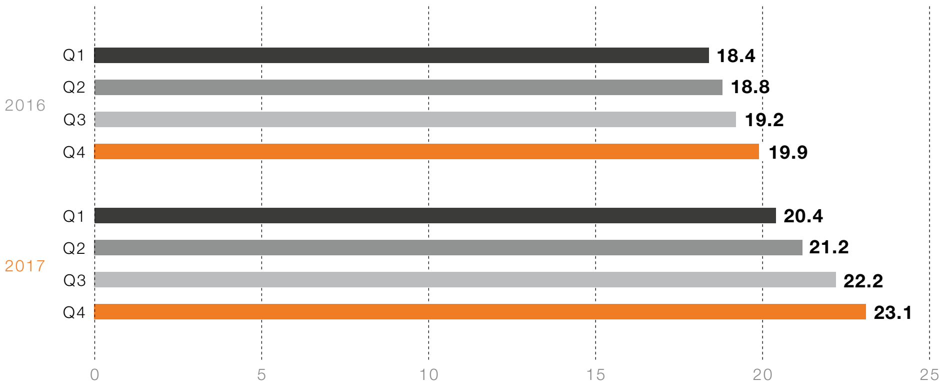
IN M



Number of Active Customers by Quarter (2016 – 2017)

→ 04

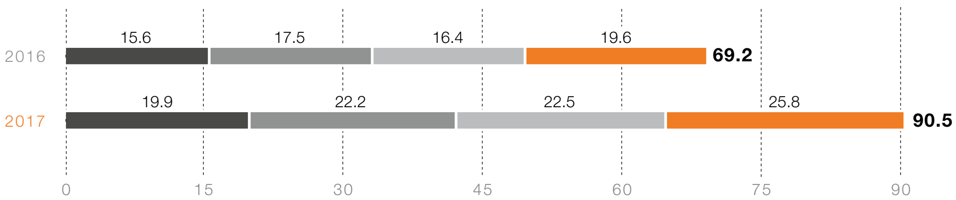
IN M



Number of Orders by Quarter (2016 – 2017)

→ 05

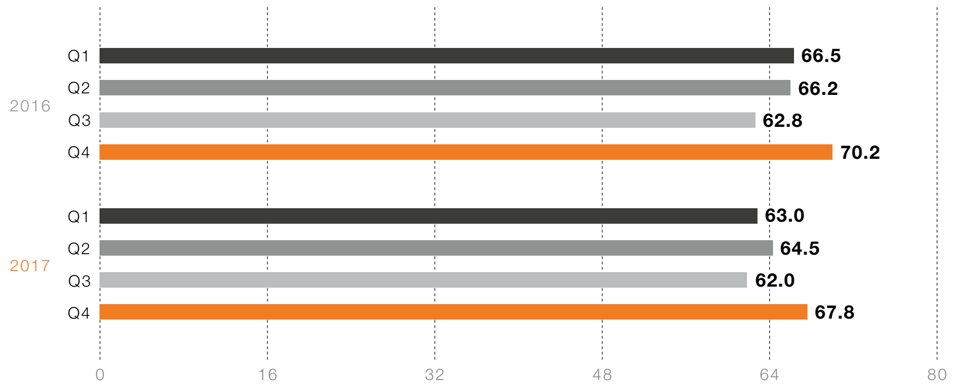
IN M



Average Basket Size by Quarter (2016–2017)

→ 06

IN EUR



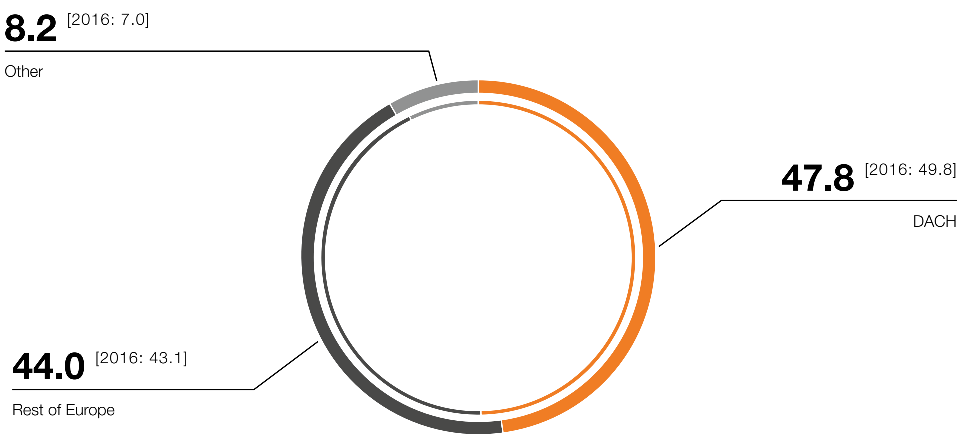
Zalando is benefiting from a strong increase in active customers by offering better and faster services to its customers, especially in the DACH region and France. An additional driver is the disproportionate growth in male customers as Zalando puts continued focus on communicating to male customers through brand marketing campaigns.

Revenue by segment breaks down as follows:

Revenue by Segment

→ 07

IN %



In fiscal year 2017, 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 2,145.6m in 2017 (prior year: EUR 1,813.8m), equivalent to an increase of 18.3% compared with 2016, thereby strongly re-accelerating growth as compared to 2016 (prior year growth rate: 14.8%).

The Rest of Europe segment generated revenue of EUR 1,973.6m in 2017 (prior year: EUR 1,570.2m). This corresponds to a 25.7% increase in revenue compared to 2016.

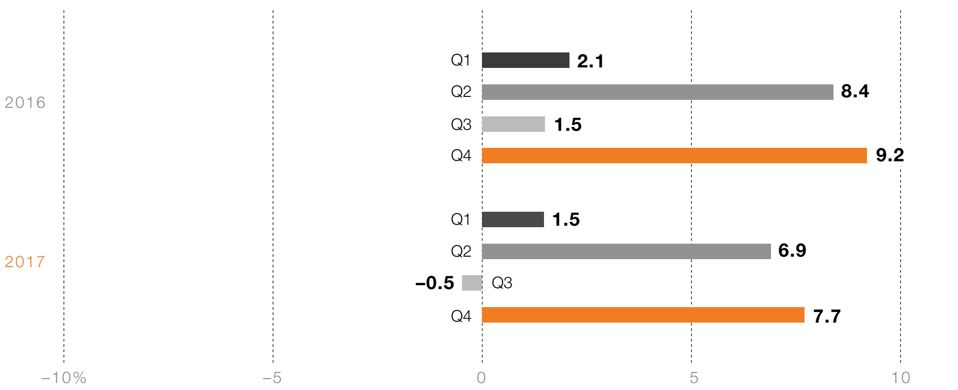
The Other segment achieved revenue of EUR 369.9m in 2017 (prior year: EUR 255.1m), increasing by 45.0%. The Other segment mainly comprises the business activities of Zalando Lounge, Outlet sales channels and projects derived from our platform initiatives. The revenue from the Zalando Lounge stems from additional sales campaigns for selected products at reduced prices for registered users.

Development of EBIT

The group recorded an EBIT of EUR 187.6m in 2017 (prior year: EUR 207.0m) which corresponds to an EBIT margin of 4.2% (prior year: 5.7%) and represents a decrease of 1.5 percentage points. The decrease in EBIT margin is mainly driven by a higher fulfillment cost ratio that could not be fully offset by a lower marketing cost ratio. This is the result of a strong focus on revenue growth and continued investments in our consumer experience, brand proposition and expanding infrastructure.

EBIT Margin by Quarter (2016–2017) → 08

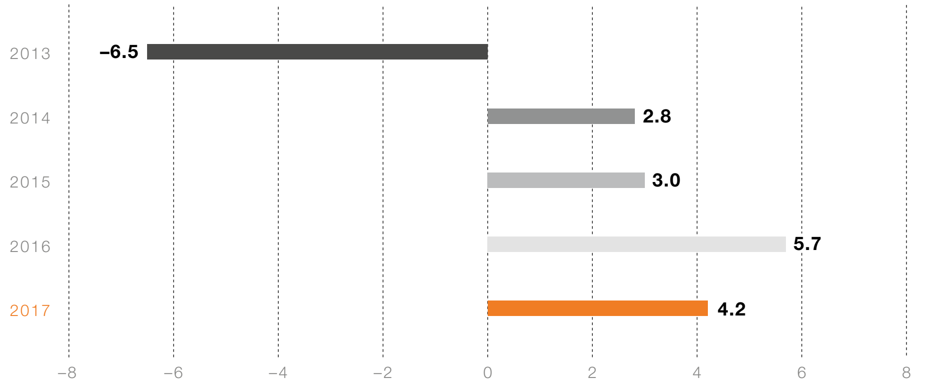
IN %



Yearly EBIT Margin (2013 – 2017)

→ 09

IN %

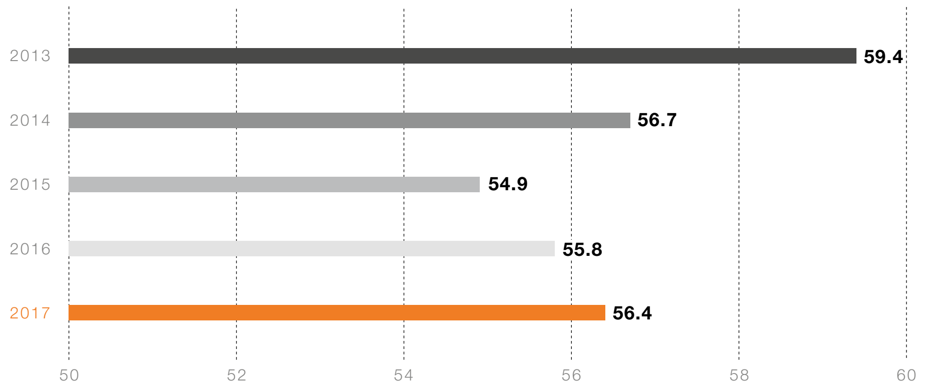


Five-Year Summary of Cost Items (Non-Adjusted)

Cost of Sales (2013 – 2017)

→ 10

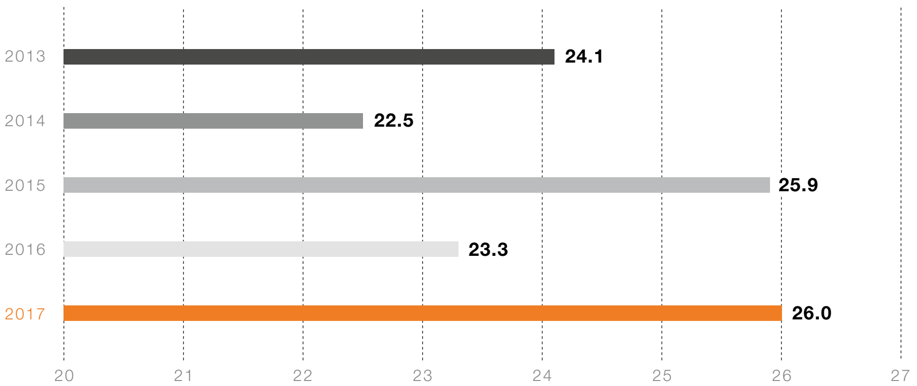
AS % OF REVENUE



Fulfillment Costs (2013 – 2017)

→ 11

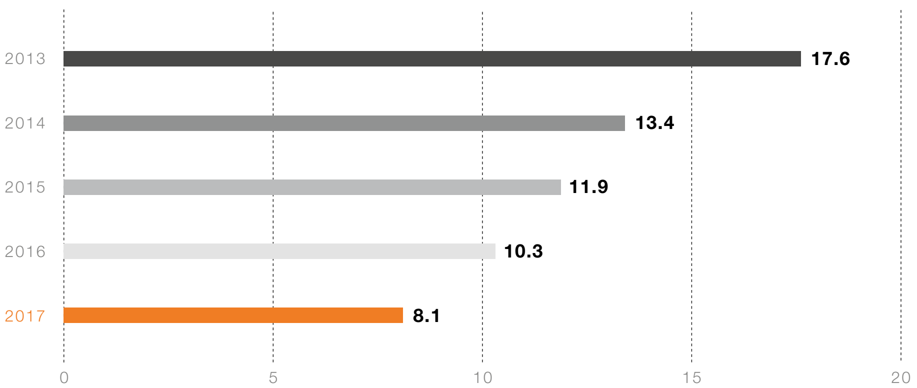
AS % OF REVENUE



Marketing Costs (2013 – 2017)

→ 12

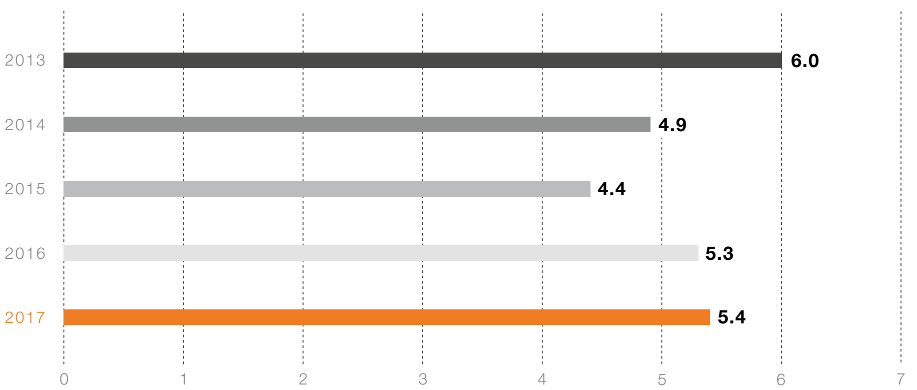
AS % OF REVENUE



Administrative Expenses (2013 – 2017)

→ 13

AS % OF REVENUE



Cost of sales rose by 24.6% year on year from EUR 2,029.6m to EUR 2,529.6m with the gross margin decreasing slightly by 0.6 percentage points from 44.2% to 43.6%, mostly due to a slightly higher discount level, which experienced a mix effect with the more discount-oriented Rest of Europe segment growing faster than DACH. Furthermore, Zalando attracts a growing number of younger customers who prefer to shop for fast fashion articles at lower gross margin levels. Economies of scale from continued negotiation successes with brand partners and a growing Partner Program share partially offset the aforementioned effects.

Selling and distribution costs rose by 25.1% year on year from EUR 1,223.7m to EUR 1,530.8m. This corresponds to an increase of 0.5 percentage points as a percentage of revenue, an increasing ratio from 33.6% in 2016 to 34.1% in 2017. Selling and distribution costs consist of fulfillment and marketing costs.

The fulfillment cost ratio as a percentage of revenue increased by 2.7 percentage points from 23.3% in 2016 to 26.0% in 2017. The increase in the fulfillment cost ratio is primarily attributable to higher logistics costs as Zalando is building up a diverse logistics network and continues its investments in the customer and brand proposition. Noteworthy developments include the ramp-up of new fulfillment centers in southern Germany, France, Italy, Sweden and Poland, continued investments in convenience to enhance our customer experience like sameday delivery, and the ramp-up of our Zalando Fulfillment Solutions service for brand partners, where we take on the fulfillment services for brands that are selling in our Partner Program. Through those investments in convenience, we were able to achieve a very high service level and fast delivery times, even at peak times around Black Friday and Christmas. The investments in convenience also include Zalando Plus, a new membership program that offers additional benefits such as faster delivery as well as customized premium services like the pickup of returns on demand. Payment costs are included in fulfillment costs; they remained overall in line with the prior year. Zalando continued to put a strong focus on optimizing and improving its steering of payment options and thus reducing the risk of fraudulent activities.

Marketing costs decreased by EUR 13.4m to EUR 362.5m compared to the prior year. Relative to revenue, marketing costs decreased by 2.3 percentage points, resulting primarily from savings and efficiency gains, in particular within performance marketing. Nevertheless, the number of active customers grew strongly by 16.2% to 23.1m. Overall, Zalando continued to shift marketing spending to fulfillment investments as a higher long-term return is expected on these investments. Marketing spend included the "Man Box" campaign with US actor James Franco and the "Remix Fashion" campaign with US rapper A$AP Rocky as well as our second Bread & Butter event.

Administrative expenses increased from EUR 191.3m in 2016 to EUR 242.9m in 2017. The increase mainly results from the higher headcount to strengthen the Zalando platform and the associated office expenses.

The EBIT margin decreased by 1.5 percentage points in comparison to the prior year, from 5.7% in 2016 to 4.2% in 2017. In absolute terms, EBIT decreased by EUR 19.4m from EUR 207.0m to EUR 187.6m. The main driver was the increase of 2.7 percentage points in the fulfillment cost ratio, which could not be fully offset by an improvement of 2.3 percentage points in the marketing cost ratio. With a net income of EUR 101.6m, Zalando remains overall sustainably profitable.

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, if applicable.

Zalando recorded an adjusted EBIT of EUR 215.1m in 2017 (similar to the prior year amount of EUR 216.3m), which translates into an adjusted EBIT margin of 4.8% in 2017 (prior year: 5.9%).

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

Share-Based Compensation Expenses per Functional Area

→ 25

IN EUR M	Jan 1 – Dec 31, 2017	Jan 1 – Dec 31, 2016	Change
Expenses for equity-settled share-based payments	**27.5**	**19.9**	**7.6**
Cost of sales	6.9	5.0	1.9
Selling and distribution costs	13.7	9.9	3.8
thereof marketing costs	6.9	5.0	1.9
thereof fulfillment costs	6.9	5.0	1.9
Administrative expenses	6.9	5.0	1.9

EBIT contains no non-operating one-time effects in 2017. The prior year's EBIT included a non-operating one-time effect of EUR 10.6m in other operating income (see section 3.5.7 (13.)). This was eliminated from adjusted EBIT accordingly.

Expenses for equity-settled share-based payments increased by EUR 7.6m compared to the prior-year period. As no non-operating one-time effects were recorded in 2017, but non-operating other income of EUR 10.6m was included in the prior-year period, adjusted EBIT decreased by only 1.2 percentage points compared to the prior-year period, whereas unadjusted EBIT decreased by 1.5 percentage points.

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 → 26

IN EUR M	Jan 1 – Dec 31, 2017	Jan 1 – Dec 31, 2016
Revenues		
DACH	2,145.6	1,813.8
Rest of Europe	1,973.6	1,570.2
Other	369.9	255.1
Earnings before interest and taxes (EBIT)		
DACH	175.6	221.4
Rest of Europe	9.6	–6.2
Other	2.5	–8.1
Adjusted EBIT		
DACH	188.5	226.3
Rest of Europe	21.6	–3.3
Other	5.0	–6.7

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

Share-Based Compensation Expenses per Segment → 27

IN EUR M	Jan 1 – Dec 31, 2017	Jan 1 – Dec 31, 2016	Change
Equity-settled share-based compensation expenses	**27.5**	**19.9**	**7.6**
DACH	12.9	9.9	3.0
Rest of Europe	12.1	8.2	3.9
Other	2.5	1.9	0.7

EBIT contains no other non-operating one-time effects in 2017. The prior year's EBIT included non-operating one-time effects of EUR 4.9m in the DACH segment, EUR 5.3m in the Rest of Europe segment and EUR 0.4m in the Other segment.

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

In 2017, revenue grew by 18.3% in the DACH segment, by 25.7% in the Rest of Europe and by 45.0% in the Other segment, compared to the prior year.

Although revenue growth re-accelerated in the DACH segment in 2017, it showed good profitability with an EBIT margin of 8.2%. Compared to the prior year, EBIT margin decreased by 4.0 percentage points, which results from increased fulfillment costs, especially logistics costs, from a slightly decreased gross margin and from non-operating one-time effects in other operating income in the prior year, partly offset by an improvement in the marketing cost ratio. The increased volume of our curated shopping service, Zalon, which is especially strong in the DACH segment, also contributes to increasing fulfillment costs.

The EBIT margin in the Rest of Europe segment recorded an increase of 0.9 percentage points resulting in an EBIT margin of 0.5%. The EBIT margin increased primarily due to savings and efficiency gains in marketing costs, outweighing higher fulfillment costs. The EBIT margin in the Other segment improved by 3.9 percentage points from –3.2% to 0.7% in 2017, thereby reaching profitability in 2017. The increase mainly results from a gross margin uplift due to profitable sourcing deals.

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 non-operating one-time effects, if applicable. The DACH segment generated an adjusted EBIT margin of 8.8% in 2017. Compared to the prior year, the adjusted EBIT margin decreased by 3.7 percentage points. The Rest of Europe segment recorded an improvement in the adjusted EBIT margin compared to the prior year, which rose by 1.3 percentage points from –0.2% to 1.1%. The Other segment's profitability significantly increased, as adjusted EBIT margin improved by 4.0 percentage points from –2.6% in 2016 to 1.3% in 2017.

Cash Flows

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

→ 28

IN EUR M	Jan 1 – Dec 31, 2017	Jan 1 – Dec 31, 2016
Cash flow from operating activities	**193.7**	**275.8**
Cash flow from investing activities	**–88.3**	**–277.1**
Cash flow from financing activities	**–10.6**	**–2.9**
Change in cash and cash equivalents	94.8	–4.1
Exchange-rate related and other changes in cash and cash equivalents	–1.9	0.5
Cash and cash equivalents at the beginning of the period	972.6	976.2
Cash and cash equivalents as of December 31	**1,065.5**	**972.6**

In fiscal year 2017, Zalando generated a positive cash flow from operating activities of EUR 193.7m (prior year: EUR 275.8m). Further to a decrease in pre-tax income (which decreased from EUR 192.9m in the prior year to EUR 175.2m in the reporting year), cash flow from operating activities decreased largely due to a higher cash outflow from working capital (prior year: cash inflow). This was partly offset by the increase in cash inflows for VAT receivables and VAT payables and prepayments received.

The capital employed in net working capital increased compared to the prior year and thus negatively impacts the cash flow. Net working capital, consisting of inventories and trade and other receivables less trade payables and similar liabilities, increased from a low level of EUR –127.6m in the prior year to EUR –62.4m as of December 31, 2017 (also see section 2.2.3 Financial Position for details on net working capital development).

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. Capex, being the sum of the payments for investments in fixed and intangible assets excluding payments for acquisitions, amounted to EUR 243.9m (prior year: EUR 181.7m). Cash flow from investing activities further consists of cash disinvested 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, 2017, an amount of EUR 40.0m was still invested in such term deposits (December 31, 2016: EUR 220.0m). In 2017, an amount of EUR 34.9m was invested in corporate acquisitions (prior year: EUR 30.4m).

Free cash flow decreased by EUR 148.7m from EUR 63.7m to EUR –85.0m compared to the prior year. The main factor for the decrease is the lower cash inflow from operating activities and the higher capex.

As a result, cash and cash equivalents increased by EUR 92.9m during the year, resulting in Zalando carrying cash and cash equivalents of EUR 1,065.5m as of December 31, 2017.

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 declined by EUR 87.1m in 2017.

Credit Facility

On December 15, 2016, ZALANDO SE concluded a 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, 2022, and may be extended until December 15, 2023. As of December 31, 2017, an amount of EUR 61.9m was utilized by bank guarantees and letters of credit.

Financial Position

The group's financial position is shown in the following condensed statement of financial position.

Assets → 29

IN EUR M	Dec 31, 2017		Dec 31, 2016		Change	
Non-current assets	569.6	19.1%	392.6	15.5%	177.0	45.1%
Current assets	2,410.7	80.9%	2,145.6	84.5%	265.0	12.4%
Total assets	**2,980.3**	**100.0%**	**2,538.2**	**100.0%**	**442.1**	**17.4%**

Equity and Liabilities → 30

IN EUR M	Dec 31, 2017		Dec 31, 2016		Change	
Equity	1,538.9	51.6%	1,407.5	55.5%	131.4	9.3%
Non-current liabilities	71.9	2.4%	32.5	1.3%	39.3	120.9%
Current liabilities	1,369.5	46.0%	1,098.2	43.3%	271.3	24.7%
Total equity and liabilities	**2,980.3**	**100.0%**	**2,538.2**	**100.0%**	**442.1**	**17.4%**

In 2017, total assets increased by 17.4%. The statement of financial position is dominated by working capital, cash and cash equivalents and equity.

In 2017, investments in intangible assets amounted to EUR 108.7m (prior year: EUR 80.0m), while investments in property, plant and equipment totaled EUR 189.7m (prior year: EUR 135.7m).

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 are supported using internally developed software. In fiscal year 2017, additions related to capitalized development costs of EUR 51.2m (prior year: EUR 57.7m), of which EUR 36.8m is contained in prepayments and assets under development (prior year: EUR 36.4m).

Inventories in 2017 mainly represent goods required for Zalando's wholesale business. The EUR 201.9m increase in inventories to EUR 778.9m resulted from the increased business volume and from holding larger amounts of inventory in stock in order to increase availability and thus customer satisfaction.

Trade and other receivables as reported on December 31, 2017, are all current. The increase of EUR 62.7m to EUR 278.7m is primarily attributable to the higher volume in business.

Equity rose from EUR 1,407.5m to EUR 1,538.9m in the fiscal year. The EUR 131.4m increase primarily stems from the net income in the period. In the reporting period, the equity ratio fell from 55.5% at the beginning of the year to 51.6% as of December 31, 2017, on account of the rise in total assets.

Current liabilities increased by EUR 271.3m in the reporting period. This increase is mainly attributable to trade payables and similar liabilities, which rose by EUR 199.5m from EUR 920.5m last year to EUR 1,120.0m 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 328.9m were transferred to various factors as of December 31, 2017 (December 31, 2016: EUR 282.3m). 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, increased from a low EUR –127.6m in the prior year to EUR –62.4m as of December 31, 2017. The increase results mainly from the increase in inventories, which reflects the higher business volume and the holding of larger amounts of inventory in stock in order to improve availability and thus customer satisfaction.

Overall Assessment

The Management Board views the business development in 2017 as positive. 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 2017 and captured additional market share. As Zalando continued to push forward with growth investments in the consumer and brand proposition plus infrastructure, the EBIT margin decreased slightly.

The company's revenue target was fully met in 2017, whereas the EBIT and EBIT margin targets had to be slightly adjusted during the year. The 2016 group management report anticipated revenue growth in 2017 in the corridor between 20% and 25% and an adjusted EBIT margin between 5.0% and 6.0%. In the second quarter of 2017, Zalando specified its guidance for revenue growth to the upper half of its guided range of 20% to 25% and for adjusted EBIT margin to the lower half of the range. In a challenging market environment, we had a weaker-than-expected October in

2017, which resulted in a slight guidance adjustment for adjusted EBIT margin in the fourth quarter. The modified guidance for an adjusted EBIT margin of slightly below 5% was met by year-end. In this context, a strong increase in the number of orders and a similar level of average basket size was expected. Sales growth met our guidance as sales increased by 23.4%. Thus, the group achieved its growth target for the third year in a row and delivered solid profitability slightly below the target set in the 2016 group management report.

4.2.4 Employees

At the end of 2017, Zalando had 15,091 employees (prior year: 11,998), representing an increase of 25.8% on the prior year. The average headcount grew by 2,904 to 13,940. The significant growth was strongly driven by the increasing headcount in the Operations Department.

Additional information regarding our sustainability strategy is provided separately in section 1.2 Corporate Responsibility.[15]

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

4.3 Subsequent Events

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

4.4 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 permanently confronted with risks and opportunities that may negatively or positively impact the group's financial performance and market position. The risk and opportunity report outlines our company's most important risks and opportunities.

4.4.1 Integrated Risk and Opportunity Management System

The Management Board of ZALANDO SE assumes overall responsibility for setting up and operating an effective risk and opportunity management system for the Zalando group.

Successful risk management depends on group-wide standards for systematically handling risks and opportunities. For this purpose, Zalando created the Governance, Risk & Compliance (GRC) Department which identifies risks and opportunities at an early stage. The GRC function continuously refines the implemented risk management instruments and methodology and coordinates the defined core process (GRC cycle). The GRC cycle is designed to support the decision-making process with consistent, comparable and transparent information via standardized procedures to identify, assess, monitor, document and report on risks and the measures implemented. These standards are defined in the GRC manual and aligned with the Management Board.

The GRC function reports on the overall risk situation to the Management Board and to the Supervisory Board's audit committee on a biannual basis. If needed, the regular reporting process is supplemented by ad-hoc reporting. All employees of Zalando are requested to manage risks in their activities adequately and prevent or mitigate 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 statutory auditor, also monitors the effectiveness of the internal control, risk management and audit systems.

4.4.2 Countermeasures and Internal Control System

Zalando reviews all identified risks and opportunities at least twice a year to determine whether they are still valid and assessed correctly. The documentation is updated during each GRC cycle 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 on a risk-based approach by the Internal Audit Team as part of their scheduled audits throughout the Zalando group.

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 (4) 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.

4.4.3 Risk Methodology and Reporting

All risks identified are assessed based on their probability of occurrence and their potential impact within a one-year time horizon after the assessment date.

The impact assessment is conducted either on a quantitative scale (preferred) or a qualitative scale. The 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.

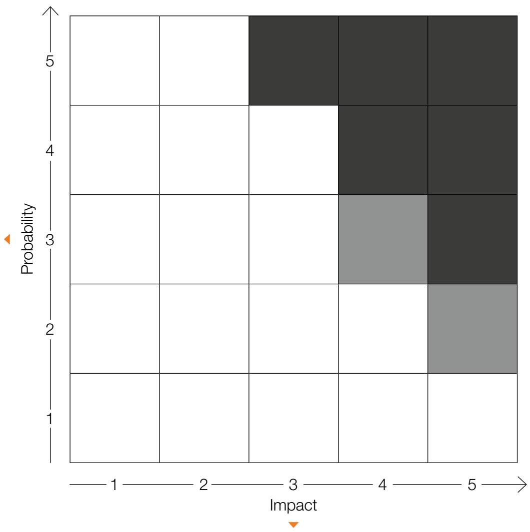
Each risk is positioned in the risk matrix using the following approach:

Zalando Risk Matrix

→ 14

Probability of occurence (within the following year)

Class	Probability	Average
1	very low (0%–5%)	2.5%
2	low (5%–25%)	15%
3	medium (25%–50%)	37.5%
4	high (50%–75%)	62.5%
5	very high (75%–100%)	87.5%



■ Zalando top risks
■ Zalando expanded risk focus

Quantitative impact (preferred)

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

Qualitative impact (alternative)

Class	Reptutational effect	Criminal prosecution
1	very low	very low
2	low	low
3	medium	medium
4	high	high
5	very high	very high

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

All single risks and opportunities assessed as significant (Zalando top risks; Zalando expanded risk focus) using this methodology are described in detail in the section below. Overarching market opportunities and general opportunities are described in a separate section.

4.4.4 Overview of Current Risks and Opportunities

In general, it cannot be ruled out that potential risks that are currently unknown or considered as insignificant 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.

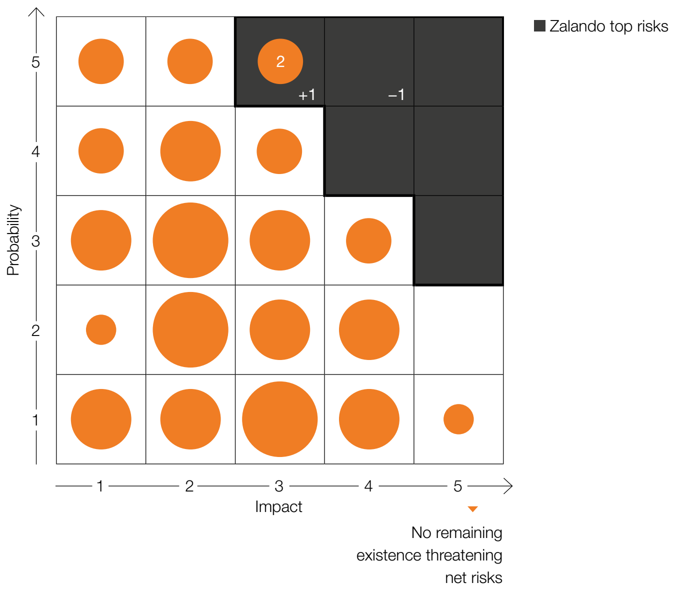
There are currently no net risks that would jeopardize the company's ability to continue as a going concern. Nevertheless, we deem two risks to be significant (top risks described below).

Risks with a Crucial Combination of Probability and Impact (Top Risks)

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

Number of Top Risks (Net)

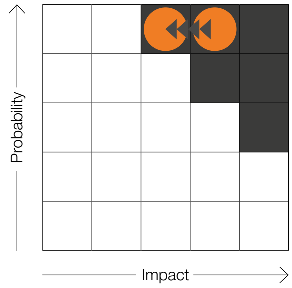
→ 15



Currently, risks from bad debt loss/external fraud and risks from overall outages with customer impact are considered as top risks for Zalando. Both risks were also part of the top risk section in fiscal year 2016 and are outlined below.

Risks of Payment Default / External Fraud (Focus on Payment Transactions in the Retail Business)

The business concept of Zalando includes the offering of deferred payments (invoice) to its customers. Inherent to this payment method is a certain default quota that is to some extent anticipated by Zalando. 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. Although applying multiple measures including a comprehensive payment and fraud management system to cope with the financial risk from default, the risk's probability remains at a high level. The size of Zalando's overall business produces large absolute deviations even with minor deviations from the planned relative ratios.

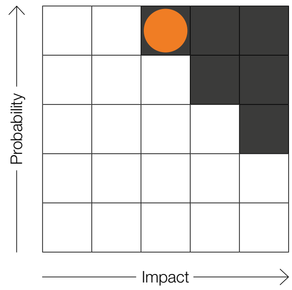


Probability: very high
Impact: medium

For the assessment of the risk, we considered a deviation from the anticipated level of bad debt loss. This anticipated bad debt loss is budgeted in our planning. In previous years, a general assessment of the bad debt loss was applied where the risk represented the full amount of defaults. As we anticipate the majority of the bad debt loss actually occurring as part of Zalando's business model and provide for it in the planning process, the risk assessment has been revised. Hence, the displayed risk shows the probability and deviation from the anticipated bad debt loss.

Risks from Overall Outages with Customer Impact (Focus on Technology)

As an e-commerce company, Zalando is 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 stock may also result in considerable short-term revenue losses.



Probability: very high
Impact: medium

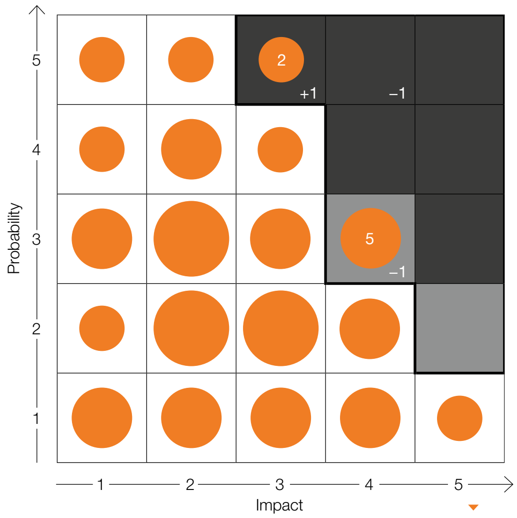
Monitoring systems are used, and incident management processes are established and documented. Incident management includes monitoring the financial impact and enables material incidents to be prioritized and solved. A system dashboard, which is continuously being improved, is utilized. Outsourced services (e.g. data center) are integrated in the monitoring processes, and adequate service level agreements are contracted. The Platform Infrastructure Team is responsible for ensuring these standards are in place throughout the development and deployment processes. Moreover, a "lessons-learned" process is implemented that, in case of system breakdowns, ensures that adequate measures derived from each incident are taken.

Preventive measures are implemented, and, in most cases, redundant systems are implemented, depending on the respective system. The group-wide incident management process was optimized with the implementation of a new automated incident management solution. To enable the teams to react faster, 24/7 availability of the teams was rolled out for approx. 60% of the technical engineers. To further improve monitoring and incident management, it is planned that SLI (service level indicators) & SLO (service level objectives) for each application are defined based on criticality, interdependencies to other systems, and customer impact.

Expanded Risk and Opportunity Area

Risks and opportunities delineated by the light 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.

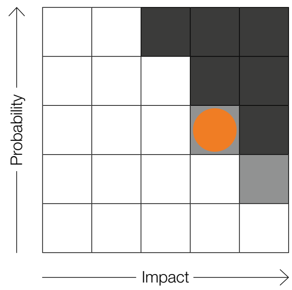
Number of Significant Net Risks → 16



The number of risks within the Zalando expanded risk focus was reduced from six to five compared with fiscal year 2016, as additional implemented countermeasures are mitigating the "risk of missing market opportunities due to insufficient branding of private labels." Despite the fact that the risk is no longer part of the expanded risk area, it is still closely monitored by the respective department, and additional countermeasures are planned for implementation.

Risk of Strike

Risks may emerge from strikes by workers employed in our warehouse facilities. The risk depends on various internal and external factors, including the degree to which the workforce is organized (membership in unions), the satisfaction of the workforce with the working conditions as well as activities of the unions regarding the industry in general or Zalando in particular. Strikes can lead to increased fulfillment costs, e.g. from dealing with backlogs and delays.

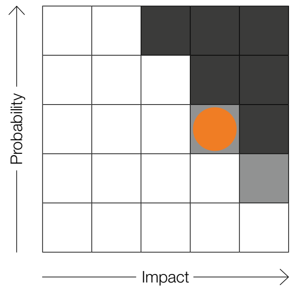


Probability: medium
Impact: high

Zalando invests into good relationships with its employees. Zalando implements social standards audited by an external audit company and an open and continuous dialogue with its employees. The comprehensive wage strategy is guided by the relevant regional collective agreements for the logistics industry. Furthermore, Zalando strives to offer a good working environment and conditions, offers comprehensive employee development programs, and nurtures open and constructive communication with employees and their representatives.

Opportunities from Improved Forecasts Planning and Alignment of the Categories and Assortment

Opportunities may be put at risk due to insufficient coordination of higher-level sales and sourcing planning. Lack of coordination and changes to 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 suboptimal budgeting in the different categories and unfavorable sourcing activities as well as missing logistics capacities.



Probability: medium
Impact: high

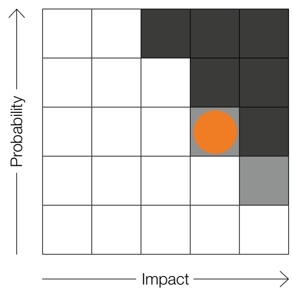
Likewise, a forecast that delivers reliable predictions in combination with adequate coordination of higher-level sales and sourcing planning will enable Zalando to generate additional value throughout the budgeting and sourcing activities.

Zalando has set up a planning process on a rolling basis, which is carried out twice a year. The process is supported by the Merchandise Financial Planning function (MFP) and is managed overall by Category Controlling. Pre-season 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 plans are continuously refined with regular updates during the seasons (in-season planning). As deviations from the planned budget are likely to occur, adjustments in budgets are possible at short notice. Regular meetings on updates of plans take place, and the plans are aligned between category managers and other relevant departments.

The product-specific sales risk is countered by continuous sales analyses and budget planning. 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. Returns to the supplier are negotiated and contracted to further mitigate the risk. In addition, Zalando recognizes write-downs on inventories to a sufficient extent. Inventory risk is an inherent risk to our business model and can have an impact anywhere along the supply chain.

Risks from Lack of “State of the Art“ Shop and Service

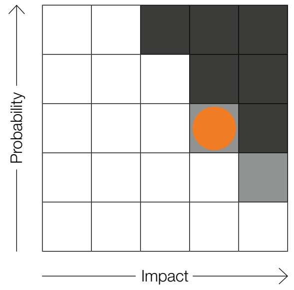
In order to meet the rising and changing demands on lifestyle products and service and to realize market opportunities, innovative and appropriate adjustments constantly have to be made to the shops. Neglecting the necessary adjustments or inadequate implementation of such measures can lead to customer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



Probability: medium
Impact: high

A significant overarching countermeasure is the establishment of the Digital Experience Team for the Fashion Store with dedicated ownership for the evolution of the Fashion Store on-site experience. The team identifies and suggests relevant developments and adjustments and coordinates implementation with stakeholders, thus ensuring the continuous development of the shops.

Risks from Changing Regulatory Requirements within the Markets



Probability: medium
Impact: high

With business activities in various countries, risks can arise from 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, consumer protection, etc.). In addition, subsequent events (exchange rate changes, unexpected customer behavior, reputational risks) can lead to increased damage. The risk exposure is mainly driven by anticipation of near-future to mid-term regulatory instruments in the context of the Digital Single Market initiative (DSM), the e-commerce sector inquiry of the EU Commission and the ePrivacy legislation. Risks might also arise due to legal uncertainties with regard to the implementation of recent enacted regulatory changes, such as the General Data Protection Regulation (GDPR) becoming applicable in May 2018. Attempts to address related issues within the member states or by events subsequent to Brexit are another risk factor. Changes in the regulatory framework can necessitate amendments to processes and business cases entailing an increase of costs or reduction of sales.

To reduce negative impact from regulatory changes, the GRC Department has implemented a Regulatory Watch process. This process ensures that relevant regulatory and legal topics are additionally allocated to the individual internal functions (e.g. Tax) that ensure the monitoring of changes throughout the markets by mandatory regular reports from these functions. The implementation of appropriate measures is initiated by the department to which responsibility for the respective topic is assigned.

The Regulatory Watch process is supported by Zalando´s Legal Teams, who monitor regulatory changes by utilizing different channels (e.g., conferences and seminars, cooperation with external law firms, latest specialist literature) and initiate appropriate countermeasures together with the departments affected.

With regard to the main risk drivers, Zalando initiated the following mitigation measures:

DSM: Zalando’s Public Affairs Team has started a dialogue with external stakeholders at EU level to give feedback and receive updates concerning planned regulations. Developments are being monitored and examined by the Legal Team for possible effects on Zalando’s business case.

GDPR: The Data & IT Law Team, in close cooperation with the teams in Digital Foundation and Tech-Security, have set up and are executing a GDPR project, implementing previously identified new and changed regulatory requirements arising under the GDPR. In the process, the teams are reviewing, updating and refining the overarching privacy design and information security setup at Zalando.

ePrivacy: The Data & IT Law Team performed an in-depth analysis of the regulatory changes set out in the drafts of the ePrivacy regulation (ePrivacy Drafts) published by EU policy makers during the 2017 fiscal year. Together with relevant internal stakeholders, potentially affected business cases have been identified, and the risks emanating from the ePrivacy Drafts have been assessed, qualified and prioritized. Subsequently, mitigation measures were put into action. These include engagement with policy makers on the national and EU levels in close coordination with the Public Affairs Team and the preparation and roll-out of innovative solutions, workarounds and initiatives with external business partners, each with a view to reducing the potential impact on the identified business cases.

EU e-commerce sector inquiry: Zalando cooperated with the EU Commission and provided appropriate information following a request for information. The EU Commission adopted the final report on its inquiry and subsequent enforcement measures are being monitored closely by Zalando.

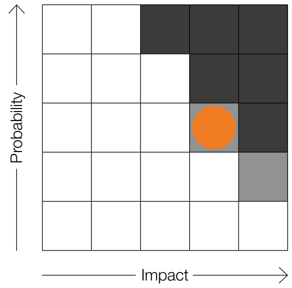
Brexit: a task force has been set up by the Legal Team to gather and evaluate Zalando-specific risks as a result of Brexit.

Risks from a Lack of Innovation Capabilities

The ability to promptly implement innovations as well as products catering to current market trends is a precondition for sustainable success. A strong innovation culture needs to exist throughout the company. Structures, decision making and budgets need to ensure the desired innovation capability.

To ensure innovativeness, the management ensured that a number of management principles were implemented to foster an innovative culture, such as the concept of agile software development (radical agility) and the concept of de-centralized decision making (dedicated ownership).

Project proposals are continuously being prepared and validated by dedicated owners, and projects concerning customer benefits are being prioritized.



Probability: medium
Impact: high

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 derivative financial instruments and cash held at banks over multiple financial institutions to minimize risk exposure to a single counterparty (also by setting maximum investment amounts). In addition, counterparty credit rating criteria are applied as well.

Liquidity Risk

The liquidity risk is defined as a possible lack of cash funds to fulfill the financial obligations of the company. This risk may arise from insufficient centralization of cash where it is needed, imprecise 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 by entity. Additionally, the group invests the cash reserves of the company in term deposits and money market instruments with a target maturity profile, and pools the cash balances centrally on a regular basis to ensure adequate distribution 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. Currency exposure is managed by means of regular cash pooling to the EUR as the functional 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.

If the euro had appreciated by 5% against the foreign currencies as of December 31, 2017, earnings before taxes would have been EUR 5.0m lower (prior year: EUR 7.3m). If the euro had depreciated 5% compared with the exchange rate as of December 31, 2017 earnings before taxes would have been EUR 5.6m higher (prior year: EUR 8.1m).

The impact on profit or loss by currency breaks down as follows:

Foreign Currency Sensitivity on Profit or Loss 2017

→ 31

	Impact on profit or loss							
IN EUR M	CHF	DKK	GBP	NOK	PLN	SEK	USD	Total
FX rate as Dec 31, 2017	**1.1702**	**7.4449**	**0.8872**	**9.8403**	**4.1770**	**9.8438**	**1.1993**	
5% increase in FX rate	– 1.2	– 0.4	0.0	– 0.3	– 1.9	– 0.2	– 0.9	– 5.0
5% decrease in FX rate	1.3	0.5	0.0	0.3	2.1	0.2	1.0	5.6

The reserve for derivatives in group equity would have been EUR 38.8m higher (prior year: EUR 34.6m higher) if the euro had appreciated 5% compared with the exchange rate as of December 31, 2017. This reserve would have been EUR 42.9m lower (prior year: EUR 38.2m lower) if the euro had depreciated 5%.

The impact on other comprehensive income by currency breaks down as follows:

Foreign Currency Sensitivity on Other Comprehensive Income 2017

→ 32

	Impact on other comprehensive income							
IN EUR M	CHF	DKK	GBP	NOK	PLN	SEK	USD	Total
FX rate as Dec 31, 2017	**1.1702**	**7.4449**	**0.8872**	**9.8403**	**4.1770**	**9.8438**	**1.1993**	
5% increase in FX rate	26.4	0.0	– 0.8	5.1	8.0	7.0	–6.9	38.8
5% decrease in FX rate	– 29.2	0.0	0.9	– 5.7	– 8.9	– 7.8	7.7	– 42.9

The interest rate risk arises from interest rate fluctuations on the earnings, equity or cash flow for the current or future reporting period. Interest rate risks from financial instruments in the group are mainly related to financial liabilities and liabilities from the reverse factoring programs. These risks are partly reduced by entering into interest rate swap.

The interest rate risk for floating-rate financial instruments does not represent a material risk for the group.

Market Opportunities

Macroeconomic Development

The European Commission projects eurozone growth of 1.8% in 2018 and EU growth of 1.8%[16]. 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. The World Bank's forecast is also optimistic, with growth in the region predicted to accelerate to 2.1% in 2018 – and an average of 1.6% between 2019–2020[17], driven by a recovery in commodity-exporting economies and improved confidence. This outlook is predicated on the basis of a continued, but modest, recovery in commodity prices and easing geopolitical tension.

In Germany, it is expected that growth momentum will continue. 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 a favorable economic and consumer market to reinforce its market position and increase its revenue.

Growing Fashion Market in Europe

European online fashion sales amounted to roughly EUR 55.6bn in 2017, making up 13%[18] of all fashion retail[19]. While the overall market for fashion in Europe (excluding Russia) remained virtually unchanged between 2016 and 2017, online fashion sales grew at a considerably faster rate with average annual growth (CAGR) of approximately 12% during the past 5 years.[20] This trend is forecasted to continue as the percentage of people in the overall population who became familiar with digital technology at a young age continues 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, its brand partner relationships, the scale of its technology and fulfillment operations across European markets, and its deep understanding of the digital economy.

The online retail market in Europe reported revenue totaling EUR 55.6bn in 2017, with a CAGR of 12% since 2012.[21] While the online share of retail trade in the United States came to 20% in 2017[22], the online share of retail trade in Zalando's target market, Europe, rose from 13% in 2016 to 15% in 2017[23].

As the online retail market continues to grow, Zalando's focus on providing customers with unique fashion experiences, convenient delivery services, and a leading digital shopping experience puts the group in a favorable position to further expand its revenue and market share. As Zalando

16) European Commission 2017
17) World Bank 2018
18) Euromonitor, Europe excl. Russia
19) Euromonitor, Europe excl. Russia
20) Euromonitor, Europe excl. Russia
21) Euromonitor, Europe excl. Russia
22) Euromonitor, United States of America
23) Euromonitor, 15 countries, in which Zalando operates

further cements its position as a trusted and well-loved fashion companion, we will continue to 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 envisioned 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 commerce provides a significant opportunity. Retail sales generated via mobile devices have risen significantly within Europe, amounting to EUR 85.56bn in 2017 compared to EUR 67.31bn in 2016[24]. Moreover, a further growth at a 13% CAGR is expected in the upcoming years.[25] This growth has been driven by the ubiquity of mobile device usage. Today's customers use their mobile devices on a daily basis to engage in a wide variety of activities ranging from browsing and shopping for products, interacting with brands on social media channels, scheduling deliveries, to tapping their smart assistants for product and sizing recommendations.

As the number of mobile commerce use cases continues to multiply, we see a parallel trend whereby users are starting to rely on a smaller number of apps to power their mobile channel experiences. At Zalando, we are aware that in order to differentiate ourselves and stay relevant, we need to leverage our mobile channels to connect customers with the right information in order to help them make informed shopping decisions. With this goal in mind, Zalando's focus is on designing superior mobile experiences to meet the customer anytime, anywhere: be it on its mobile app, its mobile site, social apps, or other connected devices. As a customer centric-company, Zalando is constantly looking for innovative ways to leverage mobile channels to interact with customers, empower them, and help them discover fashion in new and inspiring ways. During 2017, Zalando set up a dedicated team around mobile apps to gain speed on the development of mobile products, to improve the technical foundation and the ways to market apps on different channels (e.g. Facebook, Google, Snapchat).

General Opportunities Arising from Zalando's Business Activities

Innovative and Scalable Logisitics

Over the past few years, Zalando has made significant investments to expand and automate its pan-European logistics network – now consisting of seven fulfillment centers in four countries – such as implementing and ramping up a bag-sorter in Mönchengladbach, bringing our warehouse operation to a new level of automation. In 2017, a new fulfillment center in France near Paris went live, and another one in Sweden commenced operations but is still under construction. Another new fulfillment center in Poland started initial operations in fall 2017, while two additional new fulfillment center projects have been initiated – one in Poland and another in Italy. All these efforts are aimed on getting closer to Zalando's customers, thus providing an opportunity to further reduce lead times as well as preparing our network for further growth.

Scalable and innovative logistics provide a source of new growth opportunities for Zalando. They not only enable the company to expand its coverage of convenience benefits, but they also enhance Zalando's attractiveness as an essential and effective logistic partner for fashion brands and retailers.

24) Euromonitor, Europe excl. Russia
25) Euromonitor, Europe excl. Russia

In 2017, Zalando extended the service Zalando Fulfillment Solutions (ZFS), making logistics infrastructure and know-how available to brand partners. Through this new service, partners such as Bestseller can now leverage Zalando's logistic capabilities to scale up their businesses internationally and provide the highest delivery standards for their customers across Europe. Currently, ZFS is supported by one dedicated fulfillment center, but the goal is to roll out this offering to more fulfillment centers. ZFS will play a critical role in supporting the growth of Zalando's Partner Program.

Innovative logistics are a crucial component behind Zalando's convenience proposition as they enable the company to meet customers' heightened convenience expectations. Faster deliveries and a growing number of delivery options tailored to customer needs would not be possible without innovative logistics, e.g. new services such as sameday delivery and return-on-demand in selected cities. These initiatives are then also leveraged to bring to life services such as "From Store to Door"– direct deliveries from retail stores of selected brand partners to their customers' homes. Zalando is committed to enhancing its innovative and scalable logistics in order to help brand partners grow and to ensure that customers' shopping experience becomes even easier, faster, and more convenient.

Smart Data

Data is at the core of Zalando's platform. By combining data with appropriate technology tools, Zalando is able to effectively play a matchmaking role and facilitate frictionless interactions between supply- and demand-side players in the fashion ecosystem. In this regard, the Zalando platform is geared towards increasing legally compliant data flows between platform stakeholders (e.g. fashion brands, manufacturers, stylists, content creators, logistics, and service providers) in order to unlock new growth opportunities and generate additional value for everyone.

Gaining a good understanding of customer preferences and fashion trends is a prerequisite for effectively connecting platform stakeholders and enabling new ways of consuming and producing fashion. Zalando also leverages data to optimize every aspect of the business through more accurate production forecasts, improved personalization, targeted advertising and smart fulfillment services. The company's overarching objective is to develop scalable solutions that can help both brand partners and customers navigate the digital fashion universe.

Innovative Technology

Technology forms the backbone of Zalando and drives all workflows – from automating wholesale buying, personalizing customer's' shopping journey, to seamlessly connecting fashion partners' stock to online platforms. Furthermore, technology not only underpins every internal business process and digital solution offered on the platform, but it is also increasingly leveraged to reduce inefficiencies in the broader fashion ecosystem.

Due to the increased complexity of digital infrastructure, fashion brands and retailers need additional support to digitalize their businesses. In this context, Zalando's ability to combine fashion competence with advanced technological capabilities makes it an attractive partner to help brands and retailers accelerate their online growth. Customers also benefit from technological advances. Zalando is currently building the infrastructure needed to move from recommendations to personalized fashion advice across all customer touch points. New solutions, powered by artificial intelligence (AI), are being implemented to help customers find their unique size and fit preferences.

Technology is not only a major driver of efficiencies in the fashion ecosystem, but it is also a source of new models and opportunities to produce, consume, and discover fashion. Through continuous investments and strategic acquisitions, Zalando intends to consolidate its position at the forefront of the technological transformation of the fashion ecosystem.

Local Alignment

The European market is extremely heterogeneous, with highly localized needs for fashion styles, payment methods, and delivery options. No other online fashion retailer understands the particularities of all European markets as well as Zalando does. The company is able to adapt its customer and partner proposition to every single market in which it operates. Localization is – and will continue to be – one of Zalando's core differentiators. We will continue building our image of a local fashion specialist through country-specific campaigns and by reflecting local characteristics in our respective sales approach.

At the same time, Zalando uses a central platform and infrastructure to source its merchandise, fulfill orders, and leverage technology solutions across Europe. This approach provides a source of additional competitive advantages since it generates economies of scale that make platform investments possible. These capabilities endow Zalando with first-mover advantages to pursue new opportunities and quickly respond to fast fashion trends emerging across markets in Europe.

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.

With its internally designed labels, Zalando offers products whose lifecycle 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 also offer the products through additional external 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.

Having built up a base of about 500 freelance stylists under the Zalon brand, Zalando has access to a huge pool of fashion experts willing to build a business together with Zalando and bringing in deep fashion knowledge from a vast number of different fashion markets. At Zalon, the stylists are able to offer a highly personalized experience since not one single box they put together resembles another. Adding additional services to our offering, such as most recently subscription and messaging, Zalando is able to leverage stylists' skills even more in the future, contributing to an inspiring and convenient customer journey.

An Attractive Partner

Fashion brands and retailers value Zalando as a preferred partner due to its fashion competency and technological capabilities. Zalando supports partners to connect with customers across Europe and helps them tackle some of the most complex and challenging issues that they face across the fashion ecosystem. In this sense, Zalando enables brands and retailers within its Partner Program to sell their merchandise via the Zalando platform and provides tools that are necessary for partners to adjust their digital content across the markets. Zalando's online flagship stores are at the heart of this approach, enabling partners to interact directly with customers and build loyalty for their brand.

In response to the rapid pace of transformation in the fashion ecosystem, Zalando has expanded its partner proposition to help brands stay on top of new developments and technologies. The company has moved beyond providing data insights tools to offering holistic technology solutions tailored to partners' specific needs. This includes, but it is not limited to: Zalando Fulfillment Solutions (ZFS), stock integration technologies, and marketing and advertising services. The overarching goal is to help brands grow their online presence by helping them to simplify their e-commerce operations both on and off the Zalando platform. As Zalando continues to innovate its partner offering, new and interesting opportunities emerge to create new fashion products and services on top of the platform.

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 team. This is supported by an improved performance and development approach for all employees and by diverse initiatives to foster our culture at Zalando.

Recruiting 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. The recruiting process therefore was improved by different tools to speed up the process and to support the hiring of desired talents.

4.5 Outlook

- Significant growth is again forecast for internet retailing in Europe and Germany
- For 2018, a 9.7% increase in online fashion sales is forecast for Europe, while 14.8% is forecast for Germany
- Zalando aims to continue its course of profitable growth and capture further market share
- Revenue in 2018 is set to grow by 20% – 25%, adjusted EBIT is expected to be between EUR 220m and EUR 270m

4.5.1 Future Overall Economic and Industry-Specific Situation

European online retail is expected to see continued strong growth. The European retail industry is expected to achieve year-on-year growth of just 1.5% in 2018, while online retail is expected to grow by 13.2%.[26] Similarly, in Germany the retail forecast is 1.9% growth, whereas internet retailing is set to grow by 10.9% in 2018.[27]

The online fashion industry in Europe and Germany is also predicted to enjoy continued growth. Fashion sales in Europe are expected to grow minimally at 0.8%, while fashion sales in Germany are expected to grow even more slowly at 0.3%.[28] In contrast, online fashion sales are expected to grow significantly faster in both regions. Online fashion sales in Europe are expected to increase by approximately 9.7% in 2018, while predictions for Germany anticipate strong growth of 14.8%[29] compared with the previous year.

Due to its wide brand awareness among European consumers, a large customer base, strong supplier relationships, its infrastructure footprint and its fashion and mobile technology capacity, Zalando is certain that it is well positioned to benefit from these favorable market conditions. The high emotional factor that both brands and customers associate with fashion also provides independent and pure-play fashion e-commerce retailers, like Zalando, a considerable advantage over non-specialized e-commerce retailers.

4.5.2 Future Development of the Group

The goal is to grow further significantly faster than the online market, thereby strongly growing the company's market share. This growth will be enabled through continued investments in Zalando's customer proposition. Management believes this is the value-maximizing strategy for the company. As such, investments will continue also throughout 2018 into the most important elements of Zalando's customer proposition:

- Digital experience: we focus on building the leading digital experience in fashion e-commerce. A key driver of customers' experience is the level of personalization. With our ever-increasing assortment, it is important that we tailor the offering towards individual customers. As such, Zalando aims to provide every customer with his or her own personalized Zalando store.
- Convenience: Zalando continues to invest heavily in convenience for its customers. In 2018, Zalando will further automate its existing logistics footprint to increase efficiency and speed.

26) Euromonitor, Europe excl. Russia, Germany
27) Euromonitor, Europe excl. Russia
28) Euromonitor, Germany
29) Euromonitor, Europe excl. Russia, Germany

The construction of two fulfillment hubs in Poland and one in Italy as well as a satellite warehouse in Sweden will continue. Additionally, we will build a new fulfillment center for our Lounge business.

- Assortment: Zalando provides customers in 15 European markets with access to more than 300,000 articles from almost 2,000 brands and aims to launch in two additional European markets this year. We work towards continued progress through an ongoing expansion of our assortment, including the launch of additional brands, the initiation of beauty as a new category and the further expansion of our Partner Program.
- B2B services: the further build-out of platform initiatives such as Zalando Media Solutions and Zalando Fulfillment Solutions will enable additional growth opportunities.

In short, we will continue to work hard to make our customers' journey even more exciting.

As the European online fashion market is expected to grow at roughly 10% during 2018[30], Zalando targets to grow significantly faster and further build its markets share: the company forecasts revenue growth within a corridor of 20% to 25% in fiscal year 2018 (fiscal year 2017: 23.4%). The strong revenue growth is expected to be primarily driven by an increase of the active customer base as well as an increase in the number of orders per active customer. As in the past, we expect that both drivers contribute in a balanced way.

Zalando expects to continue to grow profitably, showing growth also in its adjusted EBIT in 2018. The company expects adjusted EBIT of EUR 220.0m to EUR 270.0m (EBIT EUR 185.0m to EUR 235.0m) (fiscal year 2017: adjusted EBIT of EUR 215.1m; EBIT of EUR 187.6m).

Due to continued strong logistics investments, the capex volume is expected to stay at an elevated level of around EUR 350m.

4.5.3 Overall Assessment by the Management Board of ZALANDO SE

Overall, the Management Board views the developments in fiscal year 2017 and the economic position of Zalando as 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 solid level of profitability. The company has grown considerably in all markets and has improved its market position further. In 2018, 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.

30) Euromonitor, Europe excl. Russia, Germany

4.6 Supplementary Management Report to the Separate Financial Statements of ZALANDO SE

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

4.6.1 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 shops, HR management, IT, finance management and risk management. The country-specific websites of Zalando as well as the websites of Zalando Lounge are part of ZALANDO SE.

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

The financial statements of ZALANDO SE are prepared in accordance with the German Commercial Code. The consolidated financial statements are prepared in accordance with International Financial Reporting Standards (IFRS) as adopted in the EU. This gives rise to differences in recognition and measurement policies. The differences primarily relate to provisions, fixed assets, financial instruments, deferred taxes.

In 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 ZALANDO SE provides to its subsidiaries comprise administrative and IT services.

4.6.2 Economic Situation of ZALANDO SE

The results of operations of ZALANDO SE presented in the following condensed income statement broken down by the type of expense reveal revenue growth with solid profitability in the reporting period.

Income Statement of ZALANDO SE According to German Commercial Code (Short Version)

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IN EUR M	Jan 1 – Dec 31, 2017	As % of sales	Jan 1 – Dec 31, 2016	As % of sales	Change in percentage points
Revenue	4,479.6	100.0%	3,650.7	100.0%	0.0pp
Own work capitalized	36.5	0.8%	45.2	1.2%	–0.4pp
Other operating income	48.9	1.1%	50.7	1.4%	–0.3pp
Cost of materials	–2,533.9	–56.6%	–2,043.3	–55.9%	–0.7pp
Gross profit	**2,031.1**	**45.3%**	**1,703.3**	**46.7%**	**–1.3pp**
Personnel expenses	–278.8	–6.2%	–227.4	–6.2%	0.0pp
Amortization and depreciation	–37.4	–0.8%	–27.0	–0.7%	–0.1pp
Other operating expenses	–1,545.6	–34.5%	–1,245.9	–34.2%	–0.3pp
Earnings before interest and taxes	**169.4**	**3.8%**	**203.0**	**5.6%**	**–1.8pp**
Financial result	**0.2**	**0.0%**	**–4.4**	**–0.1%**	**0.1pp**
Results from ordinary business activities	**169.6**	**3.8%**	**198.6**	**5.4%**	**–1.7pp**
Income taxes	–64.4	–1.4%	–65.7	–1.8%	0.4pp
Net income for the year	**105.1**	**2.3%**	**132.9**	**3.6%**	**–1.3pp**
EBIT margin	3.8%		5.6%		–1.8pp

In the reporting period, Zalando increased its revenue by EUR 828.9m to EUR 4,479.6m. The 22.7% increase in revenue is the result of the higher number of orders (30.8%) and a larger customer base. Zalando continued its positive development in all markets.

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

Revenue of ZALANDO SE by Segment

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IN EUR M	2017		2016		Change	
DACH*	2,350.1	52.5%	1,952.0	53.5%	398.1	20.4%
Rest of Europe**	2,129.5	47.5%	1,698.7	46.5%	430.8	25.4%
Total	**4,479.6**	**100.0%**	**3,650.7**	**100.0%**	**828.9**	**22.7%**

*) As in fiscal 2016, DACH countries include Germany, Austria and Switzerland.
**) As in fiscal 2016, the Rest of Europe comprises the Netherlands, France, Italy, the United Kingdom, Poland, Belgium, Sweden, Finland, Denmark, Spain, Norway and Luxembourg.

Other operating income mainly results from income from foreign currency translation.

The cost of materials rose by EUR 490.6m to EUR 2,533.9m, in line with the expansion of business. The increase of 0.7 percentage points in the ratio of the cost of materials to revenue to 56.6% can be primarily attributed to a higher discount level in fiscal year 2017. Overall, the company generated a gross profit of EUR 2,031.1m in fiscal year 2017 (prior year: EUR 1,703.3m).

Personnel expenses rose by EUR 51.4m to EUR 278.8m, in line with the rise in the number of employees. As of December 31, 2017, the headcount increased by 365 on the prior year from 3,929 to 4,294 employees.

Other operating expenses primarily include marketing expenses as well as shipping and fulfillment costs. The cost ratio as a percentage of revenue (34.5%) is slightly above the previous year. The increase in the fulfillment cost ratio, which is mainly driven by the extension of the logistics network, was not fully compensated for by lower marketing costs resulting from efficiency gains in particular within performance marketing.

The EBIT for the year of EUR 169.4m decreased by 1.8 percentage points mainly due to a lower gross profit margin and a higher fulfillment cost ratio.

The financial result comprises income from profit transfers of EUR 6.6m (prior year: EUR 4.4m) 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 the solidarity surcharge. As in the prior year, the statutory corporate income tax rate, including the solidarity surcharge, for the assessment period 2017 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

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IN EUR M	Jan 1 – Dec 31, 2017	Jan 1 – Dec 31, 2016
Deferred taxes	–21.0	–41.8
Current taxes in Germany	–43.4	–23.9
Total	**–64.4**	**–65.7**

In fiscal year 2017, deferred tax liabilities of EUR 16.5m were recognized mainly due to the capitalization of intangible assets.

Net Assets and Financial Position

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

Assets

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IN EUR M	Dec 31, 2017		Dec 31, 2016		Change
Non-current assets	620.3	21.2%	461.8	17.9%	158.5
Current assets	2,292.8	78.3%	2,091.8	81.3%	201.0
Prepaid expenses	14.3	0.5%	15.4	0.6%	–1.1
Deferred tax assets	0.0	0.0%	4.5	0.2%	–4.5
Total assets	**2,927.4**	**100.0%**	**2,573.5**	**100.0%**	**353.9**

Equity and Liabilities

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IN EUR M	Dec 31, 2017		Dec 31, 2016		Change
Equity	1,569.0	53.6%	1,444.0	56.1%	125.0
Special items for government grants	0.2	0.0%	0.1	0.0%	0.1
Provisions	250.9	8.6%	237.2	9.2%	13.7
Liabilities	1,087.1	37.1%	890.5	34.6%	196.6
Deferred income	3.7	0.1%	1.7	0.1%	2.0
Deferred tax liabilities	16.5	0.6%	0.0	0.0%	16.5
Total equity and liabilities	**2,927.4**	**100.0%**	**2,573.5**	**100.0%**	**353.9**

The total assets of ZALANDO SE rose by around 13.8% as a result of the further increase in business volume. The assets of the company primarily consist of current assets, specifically inventories and cash and cash equivalents. Equity and liabilities exclusively comprise equity and current liabilities and provisions.

In fiscal year 2017, investments focused on intangible assets (EUR 46.4m) and financial assets (EUR 135.2m). Investing activities were financed exclusively from the group's own funds.

In fiscal year 2017, inventories solely comprised merchandise used in the core operational business of ZALANDO SE.

As of December 31, 2017, ZALANDO SE's trade receivables were up EUR 84.0m to EUR 387.2m.

With regard to the liquidity and the financial development of ZALANDO SE, we refer to the financial development of the Zalando group. The financial development of Zalando group essentially 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 generated positive cash flow from operating activities of EUR 200.3m (prior year: EUR 252.9m). The cash flow was influenced by lower cash inflow from working capital, cash outflows for VAT liabilities and receivables and lower cash inflows from recognizing reimbursement obligations towards customers.

The cash flow from investing activities in fiscal year 2017 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. Cash and cash equivalents consist of cash on hand and bank balances as well as fixed-term deposits due within three months at credit institutions and in disposable money market funds.

The equity ratio stood at 53.6% (prior year: 56.1%).

Provisions and liabilities increased by EUR 210.3m to EUR 1,338.0m, in line with the expansion of the business. As of December 31, 2017, this figure mainly pertains to provisions for expected returns, 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 328.9m had been transferred to the factor as of December 31, 2017 (prior year: EUR 282.3m). This amount is recognized in the balance sheet under trade payables.

4.6.3 Risks and Opportunities

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

4.6.4 Outlook

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

Berlin, February 26, 2018

Robert Gentz David Schneider Rubin Ritter

4.7 Report on Equality and Equal Pay for ZALANDO SE[31]

In accordance with Section 21 German Act on Transparency of Pay (Entgelttransparenzgesetz).

4.7.1 Gender Equality

Measures to Promote Equality Between Women and Men

Promoting equality across genders is an important part of our diversity and inclusion efforts. In the first half of 2018, we are revisiting our goals and ambitions regarding inclusion and diversity in an effort to accelerate the agenda. But we already have much to build on having taken a number of measures focused on gender equality in 2017.

We Have Revised Our Promotion Process

Our revised promotion process articulates clearly what the expectations for each role are and defers promotion decisions to a committee instead of the direct leader. These committees of senior leaders are tasked with making consistent decisions across the organization based on facts and well-defined performance and promotion criteria. Additionally, members are trained to be aware of conscious and unconscious biases (in particular around gender) in order to mitigate them. We also track the outcomes of those decisions across genders.

We Have Raised Awareness and Understanding about Equality Across Genders

We have increased our embedded communications to bring the topic of gender equality forward in our internal social media channels.

We have also increased the number of analyses and reports to understand the status quo, e.g., to

- analyze the gender distribution of employees across work fields, roles and seniority levels
- assess potential differences in average pay across genders for comparable roles and grades
- understand whether gender (of an employee or that of their leader) is correlated with the likelihood of promotion or performance rating
- understand cultural health (satisfaction, engagement, sense of purpose, community, inclusion,etc.) across genders
- track the number and reasons for employee attrition out of the company for each gender.

This increased level of insights into the facts allows us to define more relevant and targeted measures to further promote gender equality.

31) The report on equality and equal pay for zalando se is not part of the audited combined management report.

We Have Taken Ad Hoc Measures as Necessary

While we intend to be proactive on gender equality, we also want to capture opportunities to advance the topic as they arise. To name but two examples: triggered by internal employee initiatives, we have recognized those employees who do not identify either as a woman or man; and in the wake of the #metoo campaign, we have revised and broadcasted our guidelines and routines to prevent and deal with sexual harassment, discrimination and reprisals, reinforcing our zero tolerance principle and our Ask and Tell policy and process.

Measures to Promote Equal Pay

At Zalando, we are committed to pay salaries based on objective criteria and regardless of gender.

The implementation of centralized processes based on defined criteria is aimed to assure fairness for individual pay decisions and to reduce the impact of factors that would lead to any potential bias. The target pay range for each employee is built on a role-based approach and has been consistently applied across Zalando. A new salary band structure was defined in 2017, which has been applied company wide.

In the past year, we also implemented a centralized annual pay review, which is steered by a central team to assure consistency and internal fairness. To increase transparency, our employees are informed in annual feedback and development talks about how their individual salary compares to the internal salary bands.

In addition, we have raised awareness with our leadership teams about the importance of objective pay decisions and a fair salary for both male and female employees.

4.7.2 Employee Statistics for ZALANDO SE

Average Headcount 2017

Male	2,136
Female	2,149

Average Headcount 2017 (Part-Time / Full-Time)

	Full-time	Part-time
Male	2,020	116
Female	1,913	236

5.1 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 26, 2018

The Management Board

Robert Gentz David Schneider Rubin Ritter

6.1 Corporate Governance Report

Corporate governance, as practised 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 Sections 289f and 315d HGB (German Commercial Code), as the content of the two is closely linked. In accordance with Section 289f and 315d HGB, the statement on corporate governance forms part of the management report.[32]

6.1.1 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 December 2017. The declaration of conformity of December 2017 is 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 December 2016 and except for the deviations stated and explained therein, acted in conformity with the recommendations of the Government Commission German Corporate Governance Code in its version of May 5, 2015, published by the Federal Ministry of Justice and Consumer Protection on June 12, 2015, in the official section of the Federal Gazette (Bundesanzeiger) as well as with the updated version of the recommendations dated February 7, 2017, published by the Federal Ministry of Justice and Consumer Protection on April 24, 2017, in the official section of the Federal Gazette (Bundesanzeiger) (hereinafter the "Code").

The Management Board and the Supervisory Board of ZALANDO SE declare that ZALANDO SE will in the future act in conformity with the recommendations of the Code 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 function of chairman or spokesman. The Supervisory Board does not see any reason why it should change this established and successful cooperation.

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

- **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 taken into account only 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 that 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 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.
- **Nos. 4.2.4 and 4.2.5:** according to the Code's recommendations, the compensation of the members of the Management Board shall be disclosed by name, divided into fixed and variable components as well as fringe benefits. These recommendations are not complied with because the general meeting of ZALANDO SE resolved on 11 July, 2014 in accordance with Sections 286 (5), 314 (3) Sentence 1, 315e (1) (previously 315a (1)) HGB 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.

- **No. 5.1.2 Sentence 2:** according to the Code's recommendation the Supervisory Board shall take diversity into account when appointing Management Board members. The Supervisory Board acknowledges and appreciates the importance of diversity. With regard to the Management Board's composition, qualification shall still be the decisive criterion. The Supervisory Board strives to adequately consider the various fields of core competences of the business model. For the time being, the Supervisory Board does not apply a specific diversity concept with respect to the Management Board. The Supervisory Board hereby takes into account that the company since its founding in 2008 has always been and still is a founder-led company with a very lean Management Board structure of only three members cooperating on an equal footing. This lean structure has proven successful in the past. Besides, the Supervisory Board acknowledges that the Management Board for its part appreciates and promotes the importance of inclusion and diversity in the company overall and in the management of the company in particular. The Management Board targets to further increase the diversity in the management levels below itself, paying attention particularly to a variety of professional experience and expertise, aiming for an appropriate consideration of women and internationality. The Supervisory Board will continuously reconsider this decision on a diversity concept in the long-term succession planning and develop a diversity concept for the Management Board in the future when considered appropriate.

6.1.2 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 Corporate Responsibility section on page 12.

A system of internal financial reporting controls 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 (GRC) Department to detect, manage, and monitor risks and opportunities at an early stage. The GRC Department's manual was updated in the reporting period to reflect the increasing complexity of its internal organization and increasing scope of responsibilities. The GRC Department ensures that risks and opportunities are assessed and managed using a uniform approach throughout the company. Potential compliance risks are included in this assessment. 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. Zalando's compliance management system institutes guidelines and offers advisory services and trainings to employees to prevent compliance infringements such as, inter alia, corruptive behavior (including, but not limited to, extortion, fraud, or bribery), violations of antitrust law, data protection regulations, or insider law. In the reporting period, all compliance-related trainings (face-to-face trainings as well as e-learnings) were integrated into Zalando's training platform. Mandatory compliance trainings (carried out as face-to-face training for leads and as e-learning for remaining employees) give all employees the overview on compliance at Zalando, our Code of Ethics, Code of Conduct and selected essential policies, including anti-corruption related policies, e.g. our Group Policy Benefits & Gifts. Furthermore, they reinforce awareness of the significant regulatory framework and internal rules and regulations and provide information regarding the established processes within the compliance management system.

All employees are also assigned a basic data protection e-learning. Furthermore, trainings on specific topics such as antitrust law, insider trading, or deep-dive trainings on data protection are carried out for specific groups of employees. Selected trainings, such as currently data protection, security- or antitrust-related trainings must be repeated annually.

Each mandatory training must be repeated regularly, typically every two years. The employee receives an automatic reminder to fulfill his training obligations. If an employee does not fulfil his obligations, the lead will be informed and reminded repeatedly until the training is completed. The outreach of the Compliance function was furthermore increased by face-to-face trainings in Zalando's subsidiaries outside Berlin and by integration efforts regarding newly acquired companies, which also involved intensive face-to-face onboarding on Zalando's compliance standards, processes, and policies. New employees are immediately instructed on compliance during the onboarding process.

The company's Code of Ethics, which is available on the corporate website and was communicated to the employees in various languages, sets expectations and provides guidance on how Zalando wants to do business and is the basis of all group policies. Under the Code of Ethics, all employees are required inter alia to comply with anti-corruption practices, anti-trust regulations and insider compliance provisions. The details are set out in internal guidelines and policies.

The Code of Ethics also stipulates the obligation for all employees to comply with our high data protection standards, which are set out in internal policies and guidelines as well. Protecting personal data and collecting, processing, and using the data in accordance with the law are very important concerns to Zalando as a tech company. Specialized teams ensure that the requirements for data security are complied with in all business divisions. Zalando complies with European and national data protection regulations which is one of the strongest worldwide and we closely monitor the changing legal requirements.

In the reporting period, Zalando has furthermore updated its Code of Conduct for Business Partners and published it on the corporate website. It clearly states that Zalando does not accept any form of corrupt practices including, but not limited to, extortion, fraud, or bribery. Business Partners are expected to comply with applicable national and international regulations and shall establish appropriate anti-bribery and anti-corruption policies, which shall be communicated to all business areas. Zalando carries out Business Partner due diligence for defined group of business partners and in cases where potential compliance risks are apparent.

Various communication channels have been installed to facilitate the reporting of presumed compliance infringements to the Compliance function – on an anonymous basis if preferred. The anonymous and protected reporting channels are available to employees as well as third parties. A compliance panel has been set up to clarify and assess potential compliance infringements. In fulfilling its duties, the GRC 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.

Information on detected compliance infringements, important updates of processes or policies, as well as training attendance quotas are reported to the Management Board at least on a quarterly basis in a review format together with the General Counsel and experts from Internal Audit and Tax.

6.1.3 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 by aligning it 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 responsibility.

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 informs 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 material transactions require Supervisory Board approval.

Composition of the Management Board

The Management Board currently does not have any female members. The female representation target according to Section 111 (5) AktG of 0% was met within the determined deadline of June 30, 2017. The Supervisory Board renewed its resolution in accordance with Section 111 (5) AktG to establish a female representation target of 0% to be achieved by June 30, 2022. 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. For the time being, the Supervisory Board does not apply a specific diversity concept with respect to the Management Board. The Supervisory Board takes into account that the company since its founding in 2008 has always been and still is a founder-led company with a very lean Management Board structure of only three members cooperating on an equal footing. This lean structure has proven successful in the past. Besides, the Supervisory Board acknowledges that the Management Board for its part appreciates and promotes the importance of inclusion and diversity in the company overall and in the management of the company in particular. The Management Board aims to further increase the diversity in the management levels below it, paying attention particularly to a variety of professional experience and expertise, aiming for an appropriate consideration of women and internationality. The Supervisory Board will regularly reconsider this decision on a diversity concept in the long-term succession planning and develop a diversity concept for the Management Board in the future when considered appropriate. While performance and qualification rather than age are and will remain the decisive factors when selecting Management Board members, such members should not be older than 65 when elected.

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 2017 → 38

Dominik Asam (member since May 31, 2017)*
Lorenzo Grabau (member and deputy chairperson until May 31, 2017)*
Lothar Lanz (chairperson)*
Jørgen Madsen Lindemann*
Anders Holch Povlsen (deputy chairperson since May 31, 2017)
Shanna Prevé (member since May 31, 2017)*
Kai-Uwe Ricke (member until May 31, 2017)*
Dylan Ross*
Alexander Samwer*
Konrad Schäfers*
Beate Siert*

*) Considered independent members of the Supervisory Board in the meaning of Section 5.4.2 of the German Corporate Governance Code.

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 whether the content is sufficient.

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.

Composition of the Supervisory Board

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. The Supervisory Board has prepared a profile of skills and expertise for the entire board. The competence profile of the Supervisory Board as a whole comprises industry competence (in particular in the fields of fashion, technology and commerce) and finance competence as well as competencies in the areas of strategy, supervision and innovation. The members of the Supervisory Board as a group shall be familiar with the sector in which the company operates. 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.

While qualification remains the decisive criterion, the Supervisory Board strives to adequately reflect the international character, the various fields of core competences of the business model as well as the competence profile of the Supervisory Board. At the same time, the Supervisory Board pays attention to diversity, in particular as regards professional experience and expertise, internationality and adequate female representation. 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 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.

The female representation target of 22% that was established in 2015 was met as of June 30, 2017. In accordance with Section 111 (5) AktG, the Supervisory Board has renewed its target of 22% female members on the Supervisory Board by the deadline of June 30, 2022. 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.

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.

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 general meeting. For the names of the members of the Supervisory Board considered independent in fiscal year 2017, please refer to the table on page 100.

In general, a Supervisory Board member should not serve as a member for longer than twelve years. The Supervisory Board is convinced that such composition ensures an independent and efficient consultation and oversight of the Management Board.

The nomination committee of the Supervisory Board considers the above described targets regarding the composition of the Supervisory Board when it prepares the proposals of the Supervisory Board to the general meeting regarding the election of Supervisory Board members.

The composition of the Supervisory Board of ZALANDO SE in fiscal year 2017 met the composition targets it had set itself in all respects. The required expertise is represented in the Supervisory Board, the competence profile has been completed and the targets of the diversity concept are met.

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 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 Commitee → 39
Dominik Asam (member and chairperson since May 31, 2017)
Lothar Lanz
Jørgen Madsen Lindemann (member since May 31, 2017)
Kai-Uwe Ricke (member and chairperson until May 31, 2017)
Lorenzo Grabau (member until May 31, 2017)
Konrad Schäfers

The chairperson of the audit committee, Dominik Asam, and the previous chairperson of the audit committee, Kai-Uwe Ricke, both have the requisite expertise in the area of accounting or auditing pursuant to Section 100 (5) AktG. Dominik Asam is and Kai-Uwe Ricke was an independent member 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 as a basis for decision-making by the Supervisory Board.

Members of the Remuneration Committee → 40
Lorenzo Grabau (member and chairperson until May 31, 2017)
Lothar Lanz (member until May 31, 2017)
Jørgen Madsen Lindemann (member and chairperson since May 31, 2017)
Shanna Prevé (member since May 31, 2017)
Alexander Samwer
Beate Siert

Nomination Committee

The nomination committee is exclusively composed of shareholder representatives. The nomination committee prepares the proposals of the Supervisory Board to the general meeting regarding the election of Supervisory Board members, taking into account the specific targets of the Supervisory Board regarding its composition.

Members of the Nomination Committee → 41

Lorenzo Grabau (chairperson and member until January 5, 2017)
Lothar Lanz (chairperson and member since January 12, 2017)
Jørgen Madsen Lindemann (member since May 31, 2017)
Anders Holch Povlsen
Alexander Samwer (member until May 31, 2017)

6.1.4 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 attaches great importance to inclusion and diversity 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 order to send out a clear signal of Zalando’s aim to support women in top-level management, the Management Board had set an ambitious target of increasing female representation in the first level directly below the Management Board from 0% to 15% by June 30, 2017, and to further increase female representation in the next management level to 30%. The company has not only reached the target in the first level directly below the Management Board, but has in fact even exceeded this target figure. As of June 30, 2017, the female representation in the first level below the Management Board stood at 25%. At the end of the reporting year 2017 – after the departure of one female Senior Vice President (SVP) – the female representation however fell below 25%. The company reaffirms its goal to increase the diversity within the top-level management with the representation of women being an important aspect of diversity. Thus, the target figure in the first management level below the Management Board was determined at 25% by June 30, 2022. On the second level directly below the Management Board, the representation of women stood at 21% as of June 30, 2017, i.e. on this level the ambitious target of 30% was missed. The company continues to strive to increase the female representation also in the second level below the Management Board and considers gender diversity as one relevant aspect in the hiring and promotion process when filling open positions at this level. The Management Board set the target to increase female representation in the second management level to 30% by June 30, 2022.

6.1.5 Management Board and Supervisory Board Shareholdings

As of the end of fiscal year 2017, 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. Management Board member Rubin Ritter held less than 1% of shares. Supervisory Board member Anders Holch Povlsen held 10.09% of shares at the end of fiscal year 2017. The other Supervisory Board members cumulatively held less than 1% of shares.

A report on the transactions conducted during fiscal year 2017 by persons discharging managerial responsibilities is published on the ZALANDO SE website in the Investor Relations section.

6.1.6 Takeover Law Disclosures Pursuant to Sections 289a (1), 315a (1) HGB and Explanatory Report[33]

The disclosures required according to Sections 289a (1), 315a (1) 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 3.5.7 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 178,965 treasury shares that do not grant rights in accordance with Section 71b AktG.

Shareholdings That Exceed 10% of the Voting Rights

At the end of fiscal year 2017, 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 1.5 The Zalando Share – 2017 in Review on page 73.

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.

The general meeting passes the resolutions to amend the Articles of Association. According to Art. 20 (2) of the Articles of Association, amendments to the Articles of Association require a majority of

33) 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.

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 unless this conflicts with mandatory legal provisions.

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 several times, by up to a total of EUR 2,736,745 by issuing up 2,736,745 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 for the issue of new shares; this also includes 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 several times, by up to a total of EUR 94,694,847 by issuing 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) treasury 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 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 issuing up to 9,817,500 no-par value bearer shares (Conditional Capital 2013). The Conditional Capital 2013 may be used only to fulfill the subscription rights that 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 be implemented to the extent only 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 is 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 issuing up to 6,732,000 no-par value bearer shares (Conditional Capital 2014). The Conditional Capital 2014 may be used only to fulfill the subscription rights that 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 issuing 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 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 issuing up to 5,098,440 new no-par value bearer shares with a pro rata share in the share capital of EUR 1.00 to fulfill subscription rights to shares of the company (Conditional Capital 2016). The Conditional Capital 2016 may be used once or several times only to fulfill the subscription rights that have been granted until May 30, 2021 – partly as a component of stock appreciation rights – in accordance with the resolution of the 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 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 general meeting of May 31, 2016, the holders of subscription rights exercise their rights and the company grants no treasury shares or cash payments for the satisfaction of the subscription rights.

The new shares from the Conditional Capital 2013, the Conditional Capital 2014, the Conditional Capital 2015 and the 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 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 the 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 use derivatives to acquire treasury shares. 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 general meeting or, if the amount is lower, share capital existing at the time this authorization is exercised. We refer to the resolutions proposed by the Management Board and the Supervisory Board in items 7 and 8 of the company's 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 Managment 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.

6.1.7 Remuneration Report[34]

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.

The term of the current appointment of the members of the Management Board ends with the expiry of November 30, 2018. Thus, the Supervisory Board dealt in the reporting year 2017 with the review of the Management Board's performance, the succession planning as well as the design and introduction of the new compensation system for the Management Board members. The discussions will be finalized in the reporting year 2018.

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 2017 (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 0.04m in fiscal year 2017 (prior year: EUR 0.05m). Other benefits include reimbursement of standard expenses, such as travel expenses, contributions towards health insurance, and monthly gross amounts that 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 2017.

The members of the Management Board participated in the option programs SOP 2011 and SOP 2013 in fiscal year 2017 (as they did in the prior year).

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

34) 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.

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 SOP 2011

→ 42

	Number	Weighted average exercise price (in EUR)
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**
Outstanding options as of Jan 1, 2017	**2,543,200**	**5.65**
Options granted during the reporting period	0	–
Options forfeited during the reporting period	0	–
Options exercised during the reporting period	691,900*	5.65
Options expired during the reporting period	0	–
Outstanding options as of Dec 31, 2017	**1,851,300**	**5.65**
Options vested as of Dec 31, 2017	**1,486,650**	**5.65**

*) For 589,050 of the 691,900 options exercised, the issuance of the shares from authorized capital and thus the receipt by the Management Board took place only in the financial year 2018.

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 2017 amounted to EUR 41.39 (prior year: EUR 30.93).

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 SOP 2013 → 43

	Number	Weighted average exercise price (in EUR)
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	–
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**
Outstanding options as of Jan 1, 2017	**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, 2017	**9,817,500**	**15.63**
Options vested as of Dec 31, 2017	**7,809,120**	**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 four years and 354 days as of the reporting date (prior year: five 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 that 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 be terminated only 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 2017 (prior year: EUR 0.6m).

Benefits

→ 44

	Management Board members			
IN EUR	2017	2017 (min)	2017 (max)	2016
Fixed compensation	583,065	583,065	583,065	600,000
Fringe benefits	40,050	40,050	40,050	48,023
Total	**623,115**	**623,115**	**623,115**	**648,023**
One-year variable compensation	0	0	0	0
Multi-year variable compensation	0	0	0	0
Total	**623,115**	**623,115**	**623,115**	**648,023**
Pension expense	0	0	0	0
Total	**623,115**	**623,115**	**623,115**	**648,023**

The following table shows allocations for fiscal 2017 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 multi-year variable compensation granted in previous years and allocated in fiscal year 2017.

Allocation

→ 45

	Management Board members	
IN EUR	2017	2016
Fixed compensation	583,065	600,000
Fringe benefits	40,050	48,023
Total	**623,115**	**648,023**
One-year variable compensation	0	0
Multi-year variable compensation	**3,886,702**	**7,924,554**
SOP 2011*	3,886,702	7,924,554
SOP 2013	0	0
Total	**4,509,817**	**8,572,577**
Service cost	0	0
Total	**4,509,817**	**8,572,577**

*) 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 only 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 annual fixed remuneration of EUR 65,000. The chairperson of the Supervisory Board receives a fixed remuneration of EUR 150,000 and the deputy chairman of the Supervisory Board receives a fixed remuneration of EUR 90,000. Supervisory Board members acting as members of the audit committee receive an additional fixed remuneration of EUR 15,000. The chairperson of the audit committee receives an additional remuneration of EUR 35,000. 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 2017 breaks down as follows:

Supervisory Board Remuneration

→ 46

IN EUR	2017	2016
Cristina Stenbeck (until May 31, 2016)	0	41,370
Lorenzo Grabau (until May 31, 2017)	43,269	75,000
Lothar Lanz (since February 10, 2014)	165,000	100,000
Kai-Uwe Ricke (until May 31, 2017)	41,209	89,658
Alexander Samwer (since December 9, 2013)	65,000	50,000
Anders Holch Povlsen (since December 9, 2013)	79,698	50,000
Konrad Schäfers (since June 2, 2015)	80,000	50,000
Dylan Ross (since June 2, 2015)	65,000	50,000
Beate Siert (since June 2, 2015)	65,000	50,000
Jørgen Madsen Lindemann (since May 31, 2016)	73,819	29,315
Shanna Prevé (since May 31, 2017)	38,214	0
Dominik Asam (since May 31, 2017)	58,791	0
Total	**775,000**	**585,343**

7.1 Independent Auditor's Report

To ZALANDO SE

Report on the Audit of the Annual Financial Statements and of the Management Report

Opinions

We have audited the annual financial statements of ZALANDO SE, Berlin, which comprise the balance sheet as of December 31, 2017, and the income statement for the fiscal year from January 1 to December 31, 2017, and notes to the financial statements, including the accounting policies presented therein. We have also audited the management report of ZALANDO SE, which is combined in the combined management report for the fiscal year from January 1 to December 31, 2017. In accordance with the German legal requirements, we have not audited the information included in the statement on corporate governance contained in the corporate governance report in the management report.

In our opinion, on the basis of the knowledge obtained in the audit,

— the accompanying financial statements comply, in all material respects, with the requirements of German commercial law applicable to business corporations and give a true and fair view of the assets, liabilities and financial position of the company as at December 31, 2017, and of its financial performance for the fiscal year from January 1 to December 31, 2017, in compliance with German legally required accounting principles, and
— the accompanying management report as a whole provides an appropriate view of the company's position. In all material respects, this management report is consistent with the annual financial statements, complies with German legal requirements and appropriately presents the opportunities and risks of future development. Our opinion on the management report does not cover the content of the statement on corporate governance contained in the corporate governance report.

Pursuant to Section 322 (3) Sentence 1 HGB ["Handelsgesetzbuch": German Commercial Code], we declare that our audit has not led to any reservations relating to the legal compliance of the annual financial statements and of the management report.

Basis for the Opinions

We conducted our audit of the annual financial statements and of the management report in accordance with Section 317 HGB and the EU Audit Regulation (No 537/2014, referred to subsequently as "EU Audit Regulation") and in compliance with German Generally Accepted Standards for Financial Statement Audits promulgated by the Institut der Wirtschaftsprüfer [Institute of Public Auditors in Germany] (IDW). Our responsibilities under those requirements and principles are further described in the "Auditor's Responsibilities for the Audit of the Annual Financial Statements and of the Management Report" section of our auditor's report. We are independent of the company in accordance with the requirements of European law and German commercial and professional law, and we have fulfilled our other German professional responsibilities in accordance with these requirements. In addition, in accordance with Article 10 (2) f) of the EU Audit Regulation, we declare that we have not provided non-audit services prohibited under Article 5 (1) of the EU Audit

Regulation. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinions on the annual financial statements and on the management report.

Key Audit Matters in the Audit of the Annual Financial Statements

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the annual financial statements for the fiscal year from January 1 to December 31, 2017. These matters were addressed in the context of our audit of the annual financial statements as a whole, and in forming our opinion thereon; we do not provide a separate opinion on these matters.

Below, we describe what we consider to be the key audit matters:

1) Occurrence and Measurement of Revenue from the Delivery of Merchandise Taking into Account Expected Returns

Reasons Why the Matter Was Determined to Be a Key Audit Matter

As part of selling merchandise to customers, Zalando typically satifies its performance obligation when the merchandise is delivered, i.e., the date on which the significant risks and rewards of ownership and control of the merchandise are transferred to the customer. Zalando customers have the option to return merchandise within the revocation period stipulated by law and, in addition to that period, the return periods granted by Zalando. Zalando's executive directors calculate expected returns, for which no revenue is recognized. Their assumptions and judgments are based primarily on country-specific and month-specific rates of returns, taking seasonal influences into account. Revenue has a significant influence on the net income of Zalando and is one of the most important performance indicators.

We consider the existence and measurement of revenue from the delivery of merchandise to be a key audit matter due to the large volume of transactions from the sale of merchandise as well as the risk of fictitious revenue and the degree of uncertainty associated with expected returns.

Auditor's Response

In the course of our audit, we traced the process of revenue recognition from the order through to payment receipt on the basis of the documentation provided to us. Furthermore, we tested the effectiveness of the internal controls in place. This approach includes in particular the operating effectiveness of IT-supported controls. In order to identify anomalies regarding revenue and the development of revenue, we developed a forecast of country-specific revenue from the sale of merchandise based on historical daily, weekly and monthly revenue and compared it with the revenue recognized in the current fiscal year. In addition, we examined the posting ledger for any revenue entries that were entered manually and analyzed the respective contra accounts.

Moreover, as part of the substantive audit procedures, we obtained documentation (delivery slips, invoices, payment receipts) for a test of sales based on mathematical-statistical assumptions regarding the existence of revenue in order to determine whether the revenue recognized was based on a corresponding delivery of merchandise. We also verified the clerical accuracy of the expected returns as determined by Zalando. We obtained documentation of past annual and monthly returns and documentation of seasonal factors, among other things, for the assumed country-specific rate of returns. In order to evaluate the assumed country-specific rate of returns, we also compared this to the merchandise actually returned by the time we concluded our audit.

Our procedures did not lead to any reservations relating to the occurrence of revenue or the measurement of revenue from the sale of merchandise inventory.

Reference to Related Disclosures
With regard to the accounting policies applied for the recognition of merchandise revenue, we refer to the company's disclosures in section 3.1.2 (Accounting and Valuation Methods) and section 3.1.4 (Notes to the Income Statement) in the Notes to the Financial Statements.

2) Measurement of Trade Receivables from Distance Retail

Reasons Why the Matter Was Determined to Be a Key Audit Matter
Trade receivables from distance retail are characterized by a high number of individual receivables typical to distance retail. Within trade receivables, impairment risks are accounted for by portfolio-based specific allowances. These are determined according to payment type and country based on their age and taking into account expected risks of default, how long they are past due as well as historical bad debts. Zalando's executive directors are responsible for selecting the valuation model as well as the underlying assumptions used in calculating impairment from the valuation model, which is subject to judgment.

We consider the measurement of trade receivables from distance retail to be a key audit matter due to the large number of individual receivables, the complexity of the valuation models as well as the use of judgment in the assumptions of the executive directors.

Auditor's Response
We analyzed the trade receivables measurement process and tested the effectiveness of the internal controls in place including the relevant IT-supported controls.

Furthermore, we considered bad debts recorded in the past as well as payments on open receivables received between the reporting date and the end of our audit according to payment type and country in order to evaluate the incoming payments accepted in the model. In addition, we verified the assumptions regarding expected future incoming payments on open receivables. In this context, we substantiated this using estimates obtained by Zalando's executive directors from the external service providers responsible for the collection of open receivables. We also analyzed whether the valuation model applied provides a suitable basis to measure the recoverability of trade receivables.

Our procedures did not lead to any reservations relating to the measurement of trade receivables from distance retail.

Reference to Related Disclosures
With regard to the accounting policies applied regarding trade receivables, we refer to the company's disclosures in section 3.1.2 (Accounting and Valuation Methods) and section 3.1.3 (Notes to the Balance Sheet) in the Notes to the Financial Statements.

3) Subsequent Measurement of Merchandise Inventory

Reasons Why the Matter Was Determined to Be a Key Audit Matter

Zalando's merchandise inventory is continuously subject to risks associated with existing and potential future excess stocks, which are sold with high discounts through distance retail or are disposed of outside of distance retail. Write-downs on estimated future excess stocks as well as existing excess stocks are calculated at the end of the reporting period and recognized in the consolidated financial statements.

Zalando's executive directors calculate excess stocks based on the expected future sell-through for various sales channels and seasons. Future sell-through and the resulting achievable fair value are based on planning assumptions subject to judgment, which are determined using figures observed in the past.

We consider the subsequent measurement of merchandise inventory to be a key audit matter due to the high volume and heterogeneity of merchandise as well as the judgment used in calculating excess stocks and estimating the future net realizable value.

Auditor's Response

We evaluated the compliance of the accounting policies Zalando applied in calculating the merchandise inventory and the timely recognition of write-downs with the requirements of German commerical law.

We also analyzed the process used by Zalando's executive directors regarding the subsequent measurement of merchandise inventory and gained an understanding of the process steps and the internal controls in place.

Within the scope of the valuation process, the executive directors consider the expected sell-through of merchandise for various sales channels and seasons. We analyzed the timing of the sell-through using past data compared with actual sales and examined any significant deviations or irregularities in detail. In addition we considered the allocation to seasons and valuation groups as well as the classification of articles always available in the valuation model.

The valuation model also incorporates the expected proceeds from excess stocks. We examined the assumptions associated with expected proceeds considering proceeds actually generated in the past from merchandise sold with high discounts as well as merchandise for disposal outside of distance retail. In this context, we considered lower-quality features (BCD merchandise) separately. We developed expectations regarding potential future excess stocks based on this and compared them with valuation model assumptions and the write-downs recorded. Furthermore, we verified the clerical accuracy of the valuation model.

Our procedures did not lead to any reservations relating to the subsequent measurement of merchandise inventory.

Reference to Related Disclosures

With regard to the accounting policies applied for the subsequent measurement of merchandise inventory, we refer to the company's disclosures in section 3.1.2 (Accounting and valuation methods) and section 3.1.3 (Notes to the Balance Sheet) in the Notes to the Financial Statements.

Other Information

The executive directors are responsible for the other information. Other information comprises the Information included in the statement on corporate governance contained in the corporate governance report in the management report as well as the remaining components of the annual financial statements and combined management report, with the exception of the audited annual financial statements and management report as well as our independent auditor's report, in particular:

- The responsibility statement contained in the responsibility statement by the Management Board pursuant to Section 264 (2) Sentence 3 HGB and Section 289 (1) Sentence 5 HGB and
- The "Report on Equality and Equal Pay for ZALANDO SE" section.

We received a version of this other information prior to issuing this independent auditor's report.

Our opinions on the annual financial statements and on the management report do not cover the other information, and consequently we do not express an opinion or any other form of assurance conclusion thereon.

In connection with our audit, our responsibility is to read the other information and, in so doing, to consider whether the other information

- is materially inconsistent with the annual financial statements, with the management report or our knowledge obtained in the audit, or
- otherwise appears to be materially misstated.

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of the Executive Directors and the Supervisory Board for the Annual Financial Statements and the Management Report

The executive directors are responsible for the preparation of the annual financial statements that comply, in all material respects, with the requirements of German commercial law applicable to business corporations, and that the annual financial statements give a true and fair view of the assets, liabilities, financial position and financial performance of the company in compliance with German legally required accounting principles. In addition, the executive directors are responsible for such internal control as they, in accordance with German legally required accounting principles, have determined necessary to enable the preparation of annual financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the annual financial statements, the executive directors are responsible for assessing the company's ability to continue as a going concern. They also have the responsibility for disclosing, as applicable, matters related to going concern. In addition, they are responsible for financial reporting based on the going concern basis of accounting, provided no actual or legal circumstances conflict therewith.

Furthermore, the executive directors are responsible for the preparation of the management report that, as a whole, provides an appropriate view of the company's position and is, in all material respects, consistent with the annual financial statements, complies with German legal requirements and appropriately presents the opportunities and risks of future development. In addition, the executive directors are responsible for such arrangements and measures (systems) as they have considered necessary to enable the preparation of a management report that is in accordance with the applicable German legal requirements, and to be able to provide sufficient appropriate evidence for the assertions in the management report.

The Supervisory Board is responsible for overseeing the company's financial reporting process for the preparation of the annual financial statements and of the management report.

Auditor's Responsibilities for the Audit of the Annual Financial Statements and of the Management Report

Our objectives are to obtain reasonable assurance about whether the annual financial statements as a whole are free from material misstatement, whether due to fraud or error, and whether the management report as a whole provides an appropriate view of the company's position and, in all material respects, is consistent with the annual financial statements and the knowledge obtained in the audit, complies with the German legal requirements and appropriately presents the opportunities and risks of future development, as well as to issue an auditor's report that includes our opinions on the annual financial statements and on the management report.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Section 317 HGB and the EU Audit Regulation and in compliance with German Generally Accepted Standards for Financial Statement Audits promulgated by the Institut der Wirtschaftsprüfer (IDW) will always detect a material misstatement. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these annual financial statements and this management report.

We exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the annual financial statements and of the management report, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinions. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit of the annual financial statements and of arrangements and measures (systems) relevant to the audit of the management

report in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of these systems of the company.

- Evaluate the appropriateness of accounting policies used by the executive directors and the reasonableness of estimates made by the executive directors and related disclosures.
- Conclude on the appropriateness of the executive directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in the auditor's report to the related disclosures in the annual financial statements and in the management report or, if such disclosures are inadequate, to modify our respective opinions. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the company to cease to be able to continue as a going concern.
- Evaluate the overall presentation, structure and content of the annual financial statements, including the disclosures, and whether the annual financial statements present the underlying transactions and events in a manner that the annual financial statements give a true and fair view of the assets, liabilities, financial position and financial performance of the company in compliance with German legally required accounting principles.
- Evaluate the consistency of the management report with the annual financial statements, its conformity with [German] law, and the view of the company's position it provides.
- Perform audit procedures on the prospective information presented by the executive directors in the management report. On the basis of sufficient appropriate audit evidence we evaluate, in particular, the significant assumptions used by the executive directors as a basis for the prospective information, and evaluate the proper derivation of the prospective information from these assumptions. We do not express a separate opinion on the prospective information and on the assumptions used as a basis. There is a substantial unavoidable risk that future events will differ materially from the prospective information.·

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with the relevant independence requirements, and communicate with them all relationships and other matters that may reasonably be thought to bear on our independence and where applicable, the related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the annual financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter.

Other Legal and Regulatory Requirements

Further Information Pursuant to Article 10 of the EU Audit Regulation

We were elected as auditor by the annual general meeting on May 31, 2017. We were engaged by the audit committee and the Supervisory Board on August 8, 2017. We have been the auditor of ZALANDO SE without interruption since fiscal year 2010. ZALANDO SE has been a corporation geared to the capital market pursuant to Section 264d HGB since 2014.

We declare that the opinions expressed in this auditor's report are consistent with the additional report to the audit committee pursuant to Article 11 of the EU Audit Regulation (long-form audit report).

In addition to the financial statement audit, we have provided to the company or entities controlled by it the following services that are not disclosed in the annual financial statements or in the management report:

- Services associated with the voluntary audit of financial statements for subsidiaries
- Review of the company's voluntarily prepared half-year financial statements as of June 30, 2017
- Audit of the system to comply with the requirements pursuant to Section 20 (1) WpHG ["Wertpapierhandelsgesetz": German Securities Trading Act]
- Performance of agreed-upon procedures
- Audit of financial statements or their individual elements in accordance with IDW AuS 490
- Audit to obtain limited assurance of the non-financial statement pursuant to Section 289b et seq. and Section 315b et seq. HGB
- translation services

German Public Auditor Responsible for the Engagement

The German Public Auditors responsible for the engagement is Dr. Ingo Röders.

Berlin, February 26, 2018

Ernst & Young GmbH
Wirtschaftsprüfungsgesellschaft

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

8.1 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 cancellations 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 device 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 cancellations 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 cancellations 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.

Capex

The sum of the payments for investments in fixed assets and intangible assets excluding payments for the acquisition of companies.

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.

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 email.

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.

Fast Fashion

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

Flagship Store

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

Free Cash Flow

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

GRC Cycle

The GRC cycle is a standardized process to support decision makers with consistent, comparable and transparent information via standardized procedures to identify, assess, monitor, document and report on risks and the measures implemented.

Integrated Risk and Opportunity Management System

Successful risk and opportunity management depends on group-wide standards for systematically handling risks and opportunities. For this purpose, Zalando created the Governance, Risk & Compliance (GRC) Department, which identifies risks and opportunities at an early stage. The GRC function continuously refines the implemented risk management instruments and methodology, and coordinates the defined core process (GRC cycle).

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 devices that offer users internet access.

Net Promoter Score (NPS)

The NPS reflects a customer satisfaction index. Customers are asked: "How likely it is that you will recommend the product/service to friends and family." The range is from −100 to +100.

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.

POP

POP stands for Persistent Organic Pollutants. It is a group of substances, such as pesticides, solvents, pharmaceuticals and industrial chemicals, that can cause adverse effect on human health and the environment and were restricted as an effect of the Stockholm Convention on Persistent Organic Pollutants.

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.

RAPEX

RAPEX is the Rapid Alert System of the European Commission for consumer protection.

REACH

REACH (Registration, evaluation, authorization and restriction of chemicals) is a European regulation on safe handling of chemical substances.

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 social interaction between users and content creation.

T.Sites

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

TENCEL® / Lyocell

Lyocell (also commonly known by the brand name Tencel®) is a third-generation cellulosic fabric manufactured in an environmentally-friendly "closed loop" process. It is made from wood pulp sourced from sustainably managed forests or fast growing renewable materials such as bamboo and eucalyptus and is 100% biodegradable.

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.

8.2 Imprint

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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