

Financial Statements and Combined Management Report 2018



Zalando.

**The
Starting
Point
for
Fashion.**

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1.1 Balance Sheet as of Dec 2018

Assets

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IN EUR M	Dec 31, 2018	Dec 31, 2017
A. Fixed assets		
I. Intangible assets		
1. Internally generated software	47.3	29.9
2. Industrial rights and similar rights and assets and licenses in such rights and assets	12.4	10.9
3. Prepayments and internally generated software under development	31.3	48.3
	91.0	89.1
II. Property, plant and equipment		
1. Buildings on third-party land	0.2	0.1
2. Plant and machinery	3.2	2.2
3. Other equipment, furniture and fixtures	30.1	27.5
4. Prepayments and assets under construction	10.6	0.9
	44.2	30.7
III. Financial assets		
1. Shares in affiliates	519.0	498.0
2. Equity investments	2.5	2.5
	521.4	500.5
	656.7	620.3
B. Current assets		
I. Inventories		
1. Raw materials and supply	6.5	5.7
2. Merchandise	701.0	678.9
3. Prepayments	0.0	2.5
	707.4	687.1
II. Receivables and other assets		
1. Trade receivables	544.4	387.2
2. Receivables from affiliates	356.2	202.2
3. Other assets	135.4	131.0
	1,036.0	720.4
III. Securities	430.4	475.5
IV. Cash on hand and bank balances	448.9	409.8
	2,622.6	2,292.8
C. Prepaid expenses	9.1	14.3
Total	3,288.4	2,927.4

1.1 BALANCE SHEET AS OF DEC 2018

Equity and Liabilities

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IN EUR M	Dec 31, 2018	Dec 31, 2017
A. Equity		
I. Subscribed capital	250.7	247.4
Less nominal value of treasury shares		
Conditional capital: EUR 93.6m (prior year: EUR 95.5m)		
Less nominal value of treasury shares	-2.8	-0.2
	247.9	247.2
II. Capital reserve	1,157.2	1,188.1
III. Unappropriated profit	163.7	130.4
	1,568.8	1,565.7
B. Cash contribution for capital increase	0.0	3.3
C. Government grants	0.0	0.2
D. Provisions		
1. Tax provisions	23.8	3.1
2. Other provisions	357.2	247.8
	381.0	250.9
E. Liabilities		
1. Prepayments received on account of orders	34.8	31.5
2. Trade payables	971.5	873.8
3. Liabilities to affiliates	181.1	63.0
4. Other liabilities		
thereof for taxes: EUR 78,5m (prior year: EUR 61,6m)		
thereof for social security: EUR 0.1m (prior year: EUR 0.0)	136.4	118.8
	1,323.8	1,087.1
F. Deferred income	6.7	3.7
G. Deferred tax liabilities	8.1	16.5
Total	3,288.4	2,927.4

2.1 INCOME STATEMENT

2.1 Income Statement

Statement of Profit and Loss for the Year Ending December 31, 2018

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IN EUR M	Jan 1 – Dec, 2018	Jan 1 – Dec 31, 2017
1. Revenue	5,338.5	4,479.6
2. Other own work capitalized	34.2	36.5
3. Other operating income thereof income from currency translation: EUR 39.1m (prior year: EUR 33.5m)	126.8	48.9
	5,499.5	4,565.0
4. Cost of materials		
a) Cost of raw materials, consumables and sup- plies and of purchased merchandise	-3,038.4	-2,512.4
b) Cost of purchased services	-20.0	-21.5
5. Personnel expenses		
a) Wages and salaries	-294.1	-242.2
b) Social security, pension and other benefit costs including old-age pensions: EUR 0.1m (prior year: EUR 0.1m)	-40.4	-36.6
6. Amortization of intangible assets and depreciation of property, plant and equipment	-43.6	-37.4
7. Other operating expenses thereof expenses from currency translation: EUR 38.3m (prior year: EUR 36.3m)	-1,930.1	-1,545.6
	-5,366.7	-4,395.7
8. Income from profit transfers	12.3	6.6
9. Expenses from transfer of losses	-7.7	0.0
10. Other interest and similar income derived from affiliates EUR 8.9m (prior year: EUR 5.7m)	19.5	17.6
11. Depreciation on financial assets	-49.4	0.0
12. Interest and similar expenses	-21.4	-24.0
	-46.7	0.2
13. Income taxes expenses resulting from changes in deferred taxes EUR 8.1m (prior year: EUR 21.0m)	-52.8	-64.4
14. Earnings after tax / net profit for the year	33.3	105.1
15. Unappropriated profit from the prior year	130.4	25.3
16. Unappropriated profit	163.7	130.4

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 is based in Berlin and is registered in the commercial register at district court Charlottenburg (HRB 158855 B).

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 250.01 and EUR 1,000.00) are recorded in a collective item and depreciated over five years. Assets with an acquisition cost not exceeding EUR 250.00 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 (3) HGB or at fair value if it is lower (market prices). Apart from customary retention 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 listed or market prices if they are lower 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: 30.6%). This comprises corporate income tax, trade tax and the solidarity surcharge of ZALANDO SE including their controlled companies and subsidiaries. Deferred tax assets and liabilities are offset against each other.

Zalando granted options to management that entitle the beneficiaries to purchase shares in the company after working for the company for a certain period of time (equity-settled share-based payment awards). The German Commercial Code does not explicitly state how to recognize such awards during the vesting period. Zalando recognizes share-based payment awards – where possible – in accordance with the provisions of IFRS 2 and recognizes the personnel expenses incurred in the fiscal year at an equal amount in the **capital reserve** under equity.

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

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

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

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

3.1 NOTES TO THE FINANCIAL STATEMENTS

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 that are intended for specific subsidiaries were agreed upon 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 34.2m (prior year: EUR 36.5m) were capitalized in the fiscal year. As in the prior year, development costs were solely incurred for the development of software. Research costs, which are not material were directly expensed.

3.1 NOTES TO THE FINANCIAL STATEMENTS

List of Shareholdings Classified as Fixed Financial Assets

The company held shareholdings in the following affiliates and equity investments as of December 31, 2018:

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 ³	Brieselang	EUR
4	Zalando Logistics Mönchengladbach SE & Co. KG ³	Mönchengladbach	EUR
5	Zalando Logistics Süd SE & Co. KG ³	Berlin	EUR
6	Zalando S.A.S.	Paris, France	EUR
7	Zalando Customer Care DACH SE & Co. KG ³	Berlin	EUR
8	Zalando Customer Care International SE & Co. KG ³	Berlin	EUR
9	Zalando Studios Erfurt SE & Co. KG ³	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 ³	Berlin	EUR
16	Portokali Property Development III SE & Co. KG ³	Berlin	EUR
17	Zalando Studios Berlin GmbH	Berlin	EUR
18	Mobile Fashion Discovery GmbH	Berlin	EUR
19	Zalando Marketing Services 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

3.1 NOTES TO THE FINANCIAL STATEMENTS

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Share of equity held by ¹	Share in capital in % 2018	Net income / loss for 2018 (in EUR m)	Equity (in EUR m)
Directly	100.0	4.2	43.2
Directly	100.0	0.4	82.1
Directly 2	99.0 1.0	6.4	55.5
Directly 2	99.00 1.0	4.5	90.0
Directly 2	99.0 1.0	2.2	76.1
Directly	100.0	-0.2	0.7
Directly 2	99.0 1.0	0.6	1.4
Directly 2	99.0 1.0	0.4	1.5
Directly 2	99.0 1.0	0.4	0.7
Directly	100.0	0.2	0.0
Directly	100.0	0.2	0.0
Directly	100.0	7.8	0.3
Directly	100.0	-5.6	5.5
Directly	100.0	-9.6	3.2
Directly	100.0	1.0	3.3
Directly 2	99.9 0.1	0.0	-0.1
Directly	100.0	2.4	-1.7
Directly	100.0	-1.0	-6.4
Directly	100.0	-6.3	0.0
15	100.0	0.0	0.0
1	100.0	0.0	0.1
21	100.0	0.0	0.1

3.1 NOTES TO THE FINANCIAL STATEMENTS

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. ⁴	Warsaw, Poland	PLN
26	Tradebyte Software GmbH ²	Ansbach	EUR
27	Zalando Lounge ³ Logistics SE & Co. KG	Berlin	EUR
28	zLabels Trading Southern Europe S.L.U	Elche, Spain	EUR
29	zLabels LP GmbH.	Berlin	EUR
30	Zalando Payments GmbH	Berlin	EUR
31	Zalando Digital Portugal, Unipessoal Lda	Lisbon, Portugal	EUR
32	Kickz Never Not Ballin' GmbH	Munich	EUR
33	Zalando Beauty Store GmbH	Berlin	EUR
34	Zalando Lounge Logistics Polska sp. z o.o. ⁴	Warsaw, Poland	PLN
35	Anatwine Ltd.	Cheltenham, United Kingdom	GBP
36	Anatwine, Inc.	New Castle, Delaware, USA	USD
37	Zalando OpCo Polska sp. z o.o. ⁴	Warsaw, Poland	PLN
38	zLabels Creation & Sales GmbH & Co. KG	Berlin	EUR
39	zLabels Platform Services GmbH & Co. KG	Berlin	EUR
40	Zalando Logistics Operations Italy S.R.L.	Bozen, Italien	EUR
41	FTGRB B.V.	Amsterdam, Netherlands	EUR
42	Zalando Lounge Content Solutions SE & Co. KG ³	Berlin	EUR
43	Zalando BTD 004 SE & Co. KG ³	Berlin	EUR
44	Zalando BTD 005 SE & Co. KG ³	Berlin	EUR

3.1 NOTES TO THE FINANCIAL STATEMENTS

Share of equity held by ¹	Share in capital in % 2018	Net income / loss for 2018 (in EUR m)	Equity (in EUR m)
Directly	100,0	0.0	7.7
19	100,0	0.8	2.7
2	100,0	1.8	25.4
Directly	100,0	-1.4	1.2
Directly 2	99.0 1.0	0.2	2.6
1	100,0	0.0	0.0
1	100,0	0.0	0.0
Directly	100,0	0.4	6.5
Directly	100,0	-1.9	1.0
Directly	100,0	-10.7	3.2
Directly	100,0	0.0	1.0
Directly	100,0	0.0	0.0
Directly	98,5	-10.2	-11.6
35	100,0	0.0	0.0
2	100,0	0.4	10.6
1 29	99.0 1.0	1.2	1.6
1 29	99.0 1.0	0.9	2.1
Directly	100,0	-0.3	38.7
Directly	100,0	0.0	0.0
Directly 11	99.0 1.0	0.1	0.3
Directly 2	99.0 1.0	0.0	0.0
Directly 2	99.0 1.0	0.0	0.0

3.1 NOTES TO THE FINANCIAL STATEMENTS

Associated companies

45	Le New Black S.A.S. ⁵	Paris, France	EUR
46	FashionTrade.com B.V. ⁵	Amsterdam, Netherlands	EUR

- 1) The number refers to the number of the company
 2) Net income 2018 before profit transfer
 3) ZALANDO SE is general partner
 4) As of Dec 31, 2017
 5) As of Jun 30, 2018

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 53.6 (prior year: EUR 18.8m) and loans of EUR 302.6m (prior year: EUR 183.4m).

As in the prior year, all loans have a remaining term of more than one year.

Other assets for the most part relate to VAT refund claims, receivables from the participation in the sale of a developed property, fixed-term deposits, prepayments, customs refund claims and to creditors with debit balances.

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

Equity**Subscribed Capital**

250,665,959 ordinary bearer no-par value shares (Stückaktien) are issued as of the reporting date (prior year: 247,384,898). 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 2018, subscribed capital was increased by a total of EUR 3.3m to EUR 250.7m by making partial use of authorized capital 2013 and conditional capital 2013 and 2014.

The capital contribution for the newly issued shares has been fully paid in.

3.1 NOTES TO THE FINANCIAL STATEMENTS

	23	33.8	-0.4	0.0
	23	50.0	-4.5	2.4

3.1 NOTES TO THE FINANCIAL STATEMENTS

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

Authorized and Conditional Capital

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	Amount in EUR m	Number of no-par value shares	Purpose
Authorized capital 2013	0.0	0.0	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	9.6	9,617,500	Servicing of subscription rights from SOP 2013
Conditional capital 2014	4.8	4,750,499	Servicing of subscription rights from SOP 2014
Conditional capital 2015	73.9	73,889,248	Issue of warrant bonds and / or convertible bonds until June 1, 2020
Conditional capital 2016	5.1	5,098,440	Servicing of subscription rights from EIP 2016

The use of authorized capital 2013 and the authorized capital 2015 requires the approval of the Supervisory Board. Authorized capital 2013 stands at EUR 0m per year-end as the authorization period expired on October 28, 2018.

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 2018, ZALANDO SE repurchased 2,663,836 treasury shares at an average price of EUR 41.62, which corresponds to a notional share in share capital of EUR 2,663,836 or 1.06% of share capital. In total, the company holds 2,778,824 treasury shares (notional share in share capital of EUR 2,778,824) as of December 31, 2018, and thus 1.11% of share capital.

Share-Based Payments

The company uses the Stock Option Plans (SOP) and Long Term Incentives (LTI) (SOP 2011, SOP 2013, SOP 2014, LTI 2018), Employee Incentive Plan (EIP) (2016, 2017, 2018) and Virtual Stock Option Plan (VSOP) (2017, 2018) for stock-based compensation, that was granted to the Management Board and employees.

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	1,346,400	5.65	3 years
SOP 2013: Board	9,445,771	15.63	4 years
LTI 2018: Board	5,250,000	47.44	4–5 years
SOP 2014: employee	4,119,559	19.58	4 years
EIP 2016, 2017, 2018: employee	3,470,790	1.00	4 years
VSOP 2017: employee	870,000	42.24	3 years
VSOP 2018: employee	750,000	39.02	2–5 years

Capital Reserve

The capital reserve amounts to EUR 1,157.2m (prior year: EUR 1,188.1m). In the fiscal year, the capital reserve included an amount of EUR 35.2m stemming from share-based equity-settled payment awards (prior year: EUR 22.7m). Furthermore, the capital reserve was increased by EUR 35.3m as part of a capital increase from the authorized capital 2013 as well by EUR 3.0m from conditional capital 2014.

The capital reserve includes an amount of EUR 113.2m (prior year: 8.9m) pertaining to treasury shares.

3.1 NOTES TO THE FINANCIAL STATEMENTS

Unappropriated Profit

Unappropriated Profit

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IN EUR M	2018	2017
As of Jan 1	130.4	25.3
Net profit of the year	33.3	105.1
As of Dec 31	163.7	130.4

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 the company had to be notified of can be found in attachment B to the notes.

Provisions

Tax provisions totaling EUR 23.8m (prior year: EUR 3.1m) relate to income taxes.

Other provisions totaling EUR 357.1m were recognized (prior year: EUR 247.8m). They primarily relate to expected returns (EUR 127.0m), outstanding invoices for fulfillment expenses (EUR 112.1m), marketing expenses (EUR 57.8m), other outstanding invoices (EUR 29.9 Mio.), as well as personnel-related expenses (EUR 10.9m).

Liabilities

Under reverse factoring agreements, suppliers’ claims against Zalando totaling EUR 374.6m were transferred to various factors as of December 31, 2018 (December 31, 2017: EUR 328.9m). These are recognized in the statement of financial position under trade payables and similar liabilities.

Liabilities to affiliates relate primarily to cash pooling liabilities EUR 117.7m (prior year EUR 0) and trade payables EUR 63.4m (prior year: EUR 63.0m) as of the reporting date.

Other liabilities of EUR 136.4m (prior year: EUR 118.8m) 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.

3.1 NOTES TO THE FINANCIAL STATEMENTS

Deferred Taxes

Zalando discloses deferred tax assets and liabilities in the balance sheet as a net amount. This results in a net deferred tax liability of EUR 8.1m (prior year: EUR 16.5m). The deferred tax assets of EUR 18.6m (prior year: EUR 8.6m) are mostly comprised of participation in subsidiaries, the valuations of current foreign currency receivables and payables (as a result of unrealized exchange rates) as well as the different valuation of provisions (such as restoration obligations, potential losses, and vacation).

Deferred tax liabilities of EUR 26.8m (prior year: EUR 25.1m) mainly result from the capitalization of self-generated intangible assets.

Deferred Tax Assets and Liabilities

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IN EUR M	Deferred tax assets		Deferred tax liabilities		Net balance	
	Dec 31, 2018	Dec 31, 2017	Dec 31, 2018	Dec 31, 2017	Dec 31, 2018	Dec 31, 2017
Intangible assets	0.0	0.0	-23.8	-22.8	-23.8	-22.8
Property, plant and equipment	4.5	0.0	-0.9	-0.4	3.7	-0.4
Trade and other receivables	3.0	3.0	-2.0	-1.8	1.0	1.2
Provisions	4.7	4.2	-0.1	-0.1	4.6	4.1
Share based payments	6.4	1.4	0.0	0.0	6.4	1.4
Unused tax losses	0.0	0.0	0.0	0.0	0.0	0.0
Total	18.6	8.6	-26.8	-25.1	-8.1	-16.5
Netting	-18.6	-8.6	18.6	8.6	0.0	0.0
Total recognized deferred tax assets and liabilities	0.0	0.0	-8.1	-16.5	-8.1	-16.5

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, 2018	Dec 31, 2017
Contingent liabilities from rental guarantees thereof to affiliates	33,0 (33,0)	26,2 (26,2)
Joint loan liabilities thereof to affiliates	8,4 (8,4)	11,2 (11,2)
Contingent liabilities from payment guarantees thereof to affiliates	5,1 (5,1)	8,6 (8,6)
	46,5	46,0

3.1 NOTES TO THE FINANCIAL STATEMENTS

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 to settle their liabilities from rental agreements for fulfillment space in Erfurt, Mönchengladbach and Lahr at all times.

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

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

There were other financial obligations of EUR 218.0m (prior year: EUR 201.1m) (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	→ 11
<hr/>	
IN EUR M	
Rental agreements	217.4
Lease agreements	0.6
Total	218.0

Rental and lease agreements have a residual term of up to 9 years.

There are also other financial obligations from purchase obligations for merchandise from the 2019 spring/summer season as of the reporting date.

Derivative Financial Instruments

As of the reporting date, forward exchange contracts totaled EUR 1,586.2m (prior year: EUR 1,288.1m), some of which displayed a positive market value of EUR 8.2m (prior year: EUR 22.5m) while others displayed a negative market value of EUR 15.4m (prior year: EUR 7.6m).

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 and GBP of EUR 32.7m (prior year: EUR 7.7m) with forward exchange contracts totaling EUR 32.7m (prior year: EUR 7.7m) (positive market value: EUR 0.2m (prior year: EUR 0.0m), negative market value: EUR 0.2m (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. These market values are reported in the balance sheet under other assets and other liabilities.

3.1 NOTES TO THE FINANCIAL STATEMENTS

The net method was used to combine orders obtained for goods in USD and GBP with a volume of EUR 161.3m (prior year: EUR 68.9m) with forward exchange contracts totaling EUR 161.3m (prior year: EUR 68.9m) (positive market value: EUR 0.8m (prior year: EUR 0.0m), negative market value: EUR 0.9m (prior year: EUR 1.0m)) in several portfolio hedges in order to hedge the currency risk. The effectiveness is measured prospectively using the critical terms match method and retrospectively using the dollar offset method. All value changes in derivatives are expected to be fully compensated in the future, as the critical features of underlying hedged items and hedging instruments match.

The net method was used to combine receivables from the sale of goods to customers in CHF, NOK, PLN and SEK with a volume of EUR 106.8m (prior year: EUR 104.1m) with forward exchange contracts totaling EUR 106.8m (positive market value: EUR 1.8m (prior year: EUR 5.2m); negative market value: EUR 0.9m (prior year: EUR 1.0m)) in several portfolio hedges in order to hedge the currency risk. The effectiveness is measured prospectively using the critical terms match method and retrospectively using the dollar offset method. All value changes in derivatives are expected to be fully compensated in the future, as the critical features of underlying hedged items and hedging instruments match.

The net method was used to combine expected sales of goods to customers in CHF, GBP, NOK, PLN and SEK with a volume of EUR 1,144.5m (prior year: EUR 990.9m) with forward exchange contracts totaling EUR 1,144.5m (prior year: EUR 990.9m) (positive market value: EUR 6.3m (prior year: EUR 17.2m); negative market value: EUR 12.4m (prior year: EUR 3.1m)) 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.

In addition, GBP and 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 140.9 million (previous year: EUR 116.5 million) (positive market value: EUR 0.1 million (previous year: EUR 0.0 million), negative market value: EUR 1.3 million (previous year: EUR 1.5 million)). A provision for potential losses has been recognized.

3.1.4 Notes to the Income Statement

Revenue

In fiscal year 2018, around 49% of revenue related to the Germany/Austria/Switzerland (DACH region) (see following table).

Revenue by Geographical Region

→ 12

IN EUR M	2018		2017		Change
DACH*	2,604.5	48,8%	2,350.1	52.5%	254.4
Rest of Europe**	2,734.0	51.2%	2,129.5	47.5%	604.5
ZALANDO SE	5,338.5	100%	4,479.6	100%	858.9

*) As in fiscal year 2017, DACH countries include Germany, Austria and Switzerland

**) As in fiscal year 2017, the Rest of Europe comprises the Netherlands, France, Italy, the United Kingdom, Poland, Belgium, Sweden, Finland, Denmark, Spain, Norway and Luxembourg plus Ireland and the Czech Republic in 2018.

Revenue comprises the sale of merchandise (EUR 5,101.8m), the provision of third-party services (EUR 149.7m), as well as revenues from intercompany charges (EUR 87.0m). Other income comprises income from the participation in the sale of a developed property (EUR 21,8m).

Income Relating to Other Periods

Other income comprises income relating to other periods of EUR 15,1m (prior year: EUR 8.3m), mainly from the reversal of accruals. Other expenses comprise expenses relating to other periods of EUR 0.2m (prior year: EUR 0.1m).

Financial Result

The financial result comprises impairments of financial investments of EUR 49.4m (prior year: EUR 0.0).

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 2018 in Germany was 15.8%. The applicable trade tax rate was 14.8% as in the prior year.

3.1 NOTES TO THE FINANCIAL STATEMENTS

Current and deferred taxes are presented in the following table.

Current and Deferred Taxes

→ 13

IN EUR M	Jan 1 – Dec 31, 2018	Jan 1 – Dec 31, 2017
Deferred taxes	8.4	-21.0
Current taxes	-61.2	-43.4
Total	-52.8	-64.4

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 66.9m (prior year: EUR 51.6m).

3.1.5 Other Notes

Number of Employees

An annual average of 4,348 (prior year: 4,062) persons were employed by the company in the fiscal year:

Average Number of Employees

→ 14

Commercial	1,415
Technology	1,485
Others	1,448
Total	4,348

Group Affiliation

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

Audit Fees

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

Subsequent Events

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

Members of the Supervisory Board

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

Members of the Supervisory Board

→ 15

Supervisory Board	Profession	Supervisory Board member since
Lothar Lanz (chairperson of the Supervisory Board)	Member of various supervisory boards	February 10, 2014
Anders Holch Povlsen (vice chairperson of the Supervisory Board)	CEO Bestseller A / S, Brande, Denmark	December 12, 2013
Alexander Samwer	Independent internet entrepreneur, Munich, Germany	December 12, 2013
Konrad Schäfers	Employed at ZALANDO SE, Berlin, Germany	June 2, 2015
Beate Siert	Employed at ZALANDO SE, Berlin, Germany	June 2, 2015
Jørgen Madsen Lindemann	CEO & President Modern Times Group MTG AB, Klampenborg, Denmark	May 31, 2016
Shanna Prevé	Managing Director Business Development for Google Consumer Hardware Group, San Francisco, USA (California)	May 31, 2017
Dominik Asam	CFO Infineon Technologies AG, Munich, Germany	May 31, 2017
Anthony Brew	Employed at ZALANDO Ireland Ltd, Dublin Ireland	May 23, 2018

3.1 NOTES TO THE FINANCIAL STATEMENTS

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 received remuneration of EUR 0.8m in fiscal year 2018 (prior year: EUR 0.8m). The remuneration of the Supervisory Board members falls due after the annual general meeting in which the financial statements for the fiscal year for which the remuneration is paid or their apparel is decided on.

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 Mandates of the Supervisory Board

→ 16

Name of Supervisory Board member	Mandates pursuant to Section 125 (1) Sentence 5 AktG
Dominik Asam	<p>Infineon Technologies Austria AG, Villach, Austria (member of the Supervisory Board)</p> <p>Infineon Technologies Americas Corp., Delaware, USA (member of the Board of Directors)</p> <p>Infineon Technologies Asia Pacific Pte., Ltd., Singapore (member of the Board of Directors)</p> <p>Infineon Technologies China Co., Ltd., PRC (member of the Board of Directors)</p>
Lothar Lanz	<p>Axel Springer SE (member of the Supervisory Board)</p> <p>Bauwert AG (member of the Supervisory Board)</p> <p>Home24 AG (member of the Supervisory Board, chairperson)</p> <p>Until June 2018: Kinnevik AB (member of the Board of Directors)</p> <p>TAG Immobilien AG (Member of the Supervisory Board, deputy chairperson)</p> <p>Dermapharm Holding SE (member of Supervisory Board)</p>

3.1 NOTES TO THE FINANCIAL STATEMENTS

Name of Supervisory Board member	Mandates pursuant to Section 125 (1) Sentence 5 AktG
Anders Holch Povlsen*	<p>J.Lindeberg Holding (Singapore) Pte. Ltd., Singapore (as well as four subsidiaries) (member of the Board of Directors)</p> <p>2 Foundation Conservation Carpathia (FCC), Romania (member of the Board of Directors)</p> <p>North Coast 500 Limited, UK (Scotland) (member of the Board of Directors)</p>
Shanna Prevé	–
Jörgen Madsen Lindemann**	Turtle Entertainment GmbH (member of the Advisory Board)
Alexander Samwer	Home24 AG, Germany
Beate Siert	–
Dylan Ross	–
Konrad Schäfers	–
Anthony Brew	–

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

**) Mr. Lindemann is also a member of Boards of Directors of various foreign group entities in 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

[→ 17](#)

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

[→ 18](#)

Name of Management Board member	Mandates pursuant to Section 125 (1) Sentence 5 AktG
David Schneider	Until May 2018: 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.

Each member of the Management Board received a remuneration of EUR 0,2m in fiscal year 2018.

Under the new long-term incentive program 2018, each member of the Management Board was granted 1,75m new options with a fair value of each EUR 19,2m.

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 163,677,775.42 will be carried forward in full.

Corporate Governance Declaration

The declaration of the Management Board and Supervisory Board on the German Corporate Governance Code pursuant to Sec. 161 AktG from June 2018 is published on the company's website (corporate.zalando.com).

Signing of the 2018 Financial Statements

Berlin, February 25, 2019

The Management Board

Robert Gentz

David Schneider

Rubin Ritter

3.1 NOTES TO THE FINANCIAL STATEMENTS

3.2 Attachment A to the Notes

Statement of Changes in Fixed Assets for Fiscal Year 2018

IN MIO EUR

	Acquisition and production cost				
	Jan 1, 2018	Additions	Disposals	Reclassifications	Dec 31, 2018
Intangible assets					
Internally generated software	87.8	16.2	6.9	30.7	127.9
Industrial rights, similar rights and assets and licenses in such rights and assets	37.0	5.4	0.1	1.2	43.5
Prepayments and internally generated software under development	49.0	21.9	7.7	-31.9	31.3
	173.7	43.6	14.6	0.0	202.7
Property, plant and equipment					
Buildings on third-party land	0.4	0.1	0.0	0.0	0.5
Plant and machinery	3.0	1.7	0.0	0.0	4.8
Other equipment, furniture and fixtures	55.9	14.4	2.7	0.5	68.2
Prepayment and assets under construction	0.9	10.3	0.0	-0.6	10.6
	60.3	26.6	2.7	0.0	84.1
Financial Assets					
Shares in affiliates	498.3	100.1	29.7	0.0	568.7
Equity investments	2.5	0.4	0.5	0.0	2.5
	500.8	100.6	30.3	0.0	571.1
	734.8	170.7	47.5	0.0	858.0

3.2 ATTACHMENT A TO THE NOTES

→ 19

Accumulated amortization, depreciation and write-downs					Carrying amounts		
Jan 1, 2018	Additions	Disposals	Reclassifications	Dec 31, 2018	Dec 31, 2018	Dec 31, 2017	
57.9	26.0	3.3	0.0	80.6	47.3	29.9	
26.1	5.1	0.1	0.0	31.1	12.4	10.9	
0.6	0.0	0.6	0.0	0.0	31.3	48.3	
84.6	31.0	4.0	0.0	111.7	91.0	89.1	
0.2	0.0	0.0	0.0	0.3	0.2	0.1	
0.9	0.6	0.0	0.0	1.6	3.2	2.1	
28.4	12.0	2.3	0.0	38.1	30.1	27.5	
0.0	0.0	0.0	0.0	0.0	10.6	0.9	
29.6	12.6	2.3	0.0	39.9	44.2	30.6	
0.3	49.4	0.0	0.0	49.4	519.0	498.0	
0.0	0.0	0.0	0.0	0.0	2.5	2.5	
0.3	49.4	0.0	0.0	49.4	521.4	500.5	
114.5	93.0	6.3	0.0	201.3	656.7	620.3	

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 [“Wertpapierhandelsgesetz“: German Securities Trading Act] of shareholdings held in it and makes the following disclosures in accordance with Section 40 (1) WpHG:

Baillie Gifford & Co., Edinburgh, UK, informed us pursuant to Section 33 (1) WpHG that due to the acquisition/disposal of shares with voting rights and by the way of a voluntary group announcement due to threshold crossing at subsidiary level that its share of voting rights had amounted to 7.38% (18,499,129 voting rights) on February 13, 2019, with 7.38% of the voting rights (18,499,129 voting rights) allocated to the company pursuant to Section 34 WpHG. The full chain of controlled undertakings starting with the ultimate controlling natural person or legal entity was stated as follows: Baillie Gifford & Co., Baillie Gifford Overseas Limited (5.02% of the voting rights).

T. Rowe Price Group, Inc., Baltimore, Maryland, United States of America (USA) informed us pursuant to Section 33 (1) that its share of voting rights in ZALANDO SE, Berlin, Germany, had exceeded the threshold of 5% of the voting rights February 1, 2019, amounting to 5.000609995073% (12,534,827 voting rights) on this date, with 5.000609995073% of the voting rights (12,534,827 voting rights) allocated to the company pursuant to Section 34 WpHG. The full chain of controlled undertakings starting with the ultimate controlling natural person or legal entity was stated as follows: T. Rowe Price Group, Inc., T. Rowe Price Associates, Inc. (3.16% of the voting rights), T. Rowe Price International Ltd.

Tengelmann Verwaltungs- und Beteiligungs GmbH, Mülheim an der Ruhr, Germany informed us pursuant to Section 33 (1) WpHG that its share of voting rights in ZALANDO SE, Berlin, Germany, had fallen below the threshold of 3% of the voting rights on September 19, 2018, amounting to 2.9996% (7,513,690 voting rights) on this date, with 2.9996% of the voting rights (7,513,690 voting rights) allocated to the company pursuant to Section 34 WpHG. The full chain of controlled undertakings starting with the ultimate controlling natural person or legal entity was stated as follows: Tengelmann Verwaltungs- und Beteiligungs GmbH, Tengelmann Warenhandels-gesellschaft KG, Tengelmann Ventures Management GmbH, Tengelmann Ventures GmbH, TEV Global Invest I GmbH.

Mr Anders Holch Povlsen, informed us pursuant to Section 33 (1) that his share of voting rights in ZALANDO SE, Berlin, Germany, had exceeded the threshold of 10% of the voting rights on September 4, 2018, amounting to 10.02% (25,087,078 voting rights) on this date, with 10.02% of the voting rights (25,087,078 voting rights) allocated to the company pursuant to Section 34 WpHG). The full chain of controlled undertakings starting with the ultimate controlling natural person or legal entity was stated as follows: Mr Anders Holch Povlsen, Heartland A/S, Bestseller United A/S, Aktieselskabet af 1.2.2017 (10.02% of the voting rights).

Verdere S.à.r.l. Luxembourg, Luxembourg, informed us pursuant to Section 33 (1) WpHG that it lost control over Kinnevik AB (publ) and indirect control over Kinnevik Online AB and Kinnevik Internet 1 AB, which still remains a shareholder of ZALANDO SE and that Kinnevik AB (publ) as a parent company holds indirectly 31.56% of voting rights attached to shares, 0% of voting rights

through instruments and 31.56% of voting rights of ZALANDO SE in total. Verdere S.à.r.l. informed us that it is not controlled and does itself not control any other undertaking(s) holding directly or indirectly an interest in ZALANDO SE.

Allianz Global Investors GmbH, Frankfurt/Main, Germany, informed us pursuant to Section 33 (1) and 38 (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 and 3.02% of the voting rights of the company pursuant to Section 34 WpHG and the share of voting rights due to instruments Section 38 (1) No. 2 WpHG amounts to 0.04% (this corresponds to 108,820 voting rights). The full chain of controlled undertakings starting with the ultimate controlling natural person or legal entity 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 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. The full chain of controlled undertakings starting with the ultimate controlling natural person or legal entity was stated as follows: Zerena GmbH (i. Gr.), Rocata GmbH, Global Founders GmbH (4.99% of the voting rights), Rocket Internet SE.

Vanguard World Funds, Wilmington, Delaware, United States of America, informed us pursuant to Section 33 (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.

Kinnevik Internet 1 AB, Stockholm, Sweden, informed us pursuant to Section 33 (2) WpHG that its share of voting rights in ZALANDO SE amounted to 47.07% (115,216,310 voting rights) on September 30, 2014, the date on which the shares of ZALANDO SE were approved for trading on an organized market for the first time, with Kinnevik Internet 1 AB directly holding 32.04% (78,427,800 voting rights). Kinnevik Internet 1 AB was allocated 15.03% (36,788,510 voting rights) as of the date of the announcement pursuant to Section 34 (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 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. 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 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 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. 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 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 fashion and lifestyle platform.
- ZALANDO SE and its 44 subsidiaries cover the entire value chain of an online retailer.
- Customer-centricity is the main strategic focus.
- Continued strategic investments to lock in partnerships with customers and suppliers and in infrastructure.
- The company is managed by numerous financial and non-financial performance indicators.

4.1.1 Business Model

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

Zalando's assortment of around 2,000 international brands ranges from popular global brands to 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, Cologne, Leipzig and Hamburg opened between 2012 and 2018 serve as an additional sales channel 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 its 17 European markets: Austria, Belgium, the Czech Republic, Denmark, Finland, France, Germany, Ireland, Italy, Luxembourg, the Netherlands, Norway, Poland, Spain, Sweden, Switzerland and the United Kingdom. The pan-European logistics network with eight 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.

GRI 102-1
GRI 102-2
GRI 102-3
GRI 102-4
GRI 102-6



zln.do/en-business-fields

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 44 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

GRI 102-3
GRI 102-5
GRI 102-7
GRI 102-18
GRI 102-45

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 jointly responsible for the group's strategy and management. Rubin Ritter is responsible for the business unit Fashion Store, Finance, Corporate Governance and Corporate Communications. Robert Gentz is responsible for the Offprice and Emerging Businesses business units and for Human Resources, Strategy and Technology Infrastructure. David Schneider's area of responsibility comprises the Zalando brand and the Partner Solutions and zLabels business units. 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.



Further Information
Corporate Governance Report
p. 48

Group Segments

ZALANDO SE's internal management structure is based on a sales channel perspective. Through fiscal year-end 2017, the Management Board monitored the development of the business for the main sales channel, the Zalando online shop, according to a geographical breakdown into the regions DACH and Rest of Europe. All other sales channels were grouped under the Other segment, which mainly comprised revenue generated by the Zalando Lounge, outlet stores and the new platform initiatives as well as the private label product sales outside of the Fashion Store.

As of January 1, 2018, ZALANDO SE changed its internal management structure. The focus is now primarily on sales channels rather than on geographical regions. Thus, the segment reporting has been adjusted for all reported periods accordingly. In addition, Zalando has changed the way in which the information reported to the so-called chief operating decision maker as per IFRS 8 is presented. While reporting was previously on a consolidated basis, from January 1, 2018, onwards, revenue and profitability generated with external business partners as well as the internal transactions between segments of Zalando have been reported. Due to this change, the segment reporting has been supplemented by a reconciliation column to reconcile the segment figures (including internal and external transactions) to the consolidated group figures (showing only external transactions).

These changes increase the level of responsibility and decision making within the individual sales channels. Under the new structure, our main sales channel continues to be the Fashion Store (online shops of Zalando). The Offprice segment includes Zalando Lounge, outlet stores and overstock management; all other segments include the private label offering zLabels and various emerging businesses. However, to ensure continuity of capital market reporting, Zalando also reports a breakdown of results within the Fashion Store into DACH and Rest of Europe.

4.1.3 Corporate Strategy

We are Europe's leading online fashion and lifestyle platform, connecting customers and partners.

Customer centricity is our main focus, as we address emerging and foreseeable customer needs and pain points by offering a unique fashion experience through websites and mobile applications in 12 languages, supported by 22 payment options and with free delivery from eight fulfillment centers to 17 countries. We have become a trusted fashion companion for more than 26 million active customers across Europe by offering a comprehensive assortment, fun and personalized discovery and inspiration, vivid storytelling, and an attractive convenience proposition.



zln.do/en-strategy

We have also become a trusted fashion and technology partner for around 2,000 fashion brands, from world-famous names to local labels. We have invested in and developed a number of solutions to help our partners drive their own success and to understand how trends impact their businesses. We provide technology and operations infrastructure to our partners to optimize results across their value chain, developed tailor-made solutions to allow them to present themselves in a brand equity accretive way and granted access to a fashion ecosystem with leading customer reach.

Fashion Industry

With revenues of 5.4 billion and more than 26 million active customers, Zalando reached a market share of 1.6% in 2018 and counts 6.0% of the European population as its customers. Underlining the strong progress Zalando has made, this also depicts a significant opportunity for further growth. The European fashion and lifestyle industry is large and characterized by specific market dynamics and consumer trends. To continue growing, we need to spot and understand trends ahead of the curve.

Consumer Trends

Online fashion has brought a greater, more easily accessible selection to customers and moved the changing room to the consumers' home, freeing customers to engage on their own terms. However, we continue to see that certain areas, such as curation of selection, immediate gratification, fashion advice and outfit suggestion can be further developed. With improved shopping experience and increased availability of information and technologies, consumer needs increased in areas such as personalization, supply chain transparency and sustainability, the possibility to shop on social media platforms or to access goods without owning them. All of this leaves room to further improve our offer.

Partner Trends

Most fashion brands are making significant effort to remain relevant in the digital age. They feel the need to adapt their business models by changing the way they sell, distribute or tell their story and build their brands. In this context, they are willing to secure trusted partnerships with online platforms who understand and can convey their brand proposition and who have the ability to deliver the scale they need.

Our industry is an ever-changing environment where market and consumer trends constantly evolve. Zalando is well-positioned to spot trends and turn them to our advantage by leveraging our core strengths of a large active customer base, advanced technological capabilities, a wide fulfillment network, direct relationships with partners and our ability to adapt our offer to local taste.

Our Platform Vision and Strategy

Zalando has evolved from a successful online fashion retailer to a fashion and lifestyle platform. By opening Zalando's online destinations to a wider range of partners (e.g. brands, verticals, stylists) and providing easier-to-use tools and services, we have set ourselves on a path to becoming the starting point for fashion. We embrace a platform business model to build the best fashion shopping experience. We continue to believe that such a partner-inclusive approach will enable us to offer customers superior inspiration, assortment and convenience.

Our current focus is on building deep, long-term relationships with our customers. We aim to achieve this by differentiating our destinations and services even more through strategic investments in our customer proposition, our brand partner proposition, and our technology and operations infrastructure. These investments will significantly improve Zalando's appeal as European customers' preferred starting point for their fashion needs and help us sustain further growth.

Strategic Investment Areas

Investment in Our Customer Proposition

Zalando will continue to invest in the following core components of our customer proposition in order to deliver on our customer centricity promise and to strengthen our fashion competence.

Assortment

Our mission is to become a one-stop shop for fashion customers by offering a broad assortment that covers what our customers need, what inspires them and what they aspire to. Today, we have attracted numerous fashion brands and expanded into adjacent categories such as beauty. As we broaden our assortment even more, we will continue to invest in scaling our capability to match customers with relevant selection, inspiring customers with personalized content and helping customers keep up with the latest fashion trends by making it easier than ever to access our fashion curation service, Zalon.

Convenience

We want to offer our customers an unmatched level of convenience tailored to fashion, from discovery and ordering articles on our online platform to delivery, return and payment. We will continue investing in highly localized fulfillment solutions and innovative payment services to guarantee fast delivery, flexible payment options and a hassle-free return process in all markets.

Fashion Services and Experiences

As the leading fashion destination in Europe, we constantly expand our fashion expertise to better cater to our customers' evolving needs and expectations. We are focused on building distinctive fashion services and experiences that give customers compelling reasons to rely upon Zalando again and again.

Multi-Channel Digital Experience

Customers are increasingly demanding a seamless shopping experience across multiple online and offline channels. We want to be where shoppers are at any time to ensure they enjoy a smooth experience. We will continue investing in initiatives facilitating the convergence between the different shopping channels, across various devices.

Investment in Our Brand Partner Proposition

To remain the preferred and most trusted fashion and technology partner, we will continue to invest in the following areas of our brand partner proposition.

Wholesale

We are continuously looking for ways of optimizing and innovating our wholesale capabilities, and we invest in activities to improve process automation, data management and fulfillment management. These initiatives will enable us to limit friction and improve efficiency as we scale further.

Partner Program

We have put a high strategic emphasis on our transition to a platform business by scaling the Partner Program. We will further invest in innovating and strengthening our capabilities to enable brands to easily add their assortment to the Zalando platform in a plug-and-play fashion.

Offprice

Our Offprice business offers brands additional growth opportunities by providing access to a discount-oriented customer group while maintaining brand equity. We will invest in both our online and offline channels, tailoring the offer to local needs and leveraging automation and data-driven technology solutions.

Digital Services

We invest in digital technologies and services to help our brand partners better understand their customers and smartly meet their preferences. This is currently driven by Zalando Marketing Services (ZMS). ZMS will continue to invest in its proposition, offering a full range of marketing services up to product development.

Investment in Infrastructure

We will continue investing in our technology and operations infrastructure, enabling us to build compelling customer and partner propositions.

Technology

Technology is the backbone of our platform and is constantly being updated to stay ahead of our competitors. We actively identify, monitor and address emerging trends that could potentially scale and disrupt the future fashion market. Many of the technologies and initiatives we are currently investing in rely on the ability to leverage data. We are therefore investing significantly in artificial intelligence (AI), which plays a major role in helping us understand user preferences and anticipate their intentions, to offer a highly personalized experience. AI for example can be used to solve customers' fitting problems, by leveraging data from past transactions. To address all the necessary tech investments, we foster a healthy tech culture across the company, with principles such as clear

measurable objectives and access to leadership. We believe this to be crucial in attracting tech talent and maintaining a high-performing and agile culture.

Operations

To sustain our superior customer service as we expand, we will continue investing in operations infrastructure. One focus is to continue building up Zalando Fulfillment Solutions (ZFS) to strengthen fulfillment collaboration with our partners. This includes areas such as fulfillment capability, order management and payment facilitation.

4.1.4 Corporate Responsibility

At Zalando, we are driven by a powerful purpose to reimagine fashion for the good of all. We believe that our industry can and should find new ways to produce, sell and consume fashion, today and for generations to come. To truly deliver on this purpose, we know that we must take action to help address the fashion industry's significant and complex challenges regarding human rights and decent work as well as the usage of resources and climate change.

We want to run our business responsibly and enable customers, brands and the industry to make more sustainable choices. We will do this strategically, using our expertise in technology and fashion to contribute to the necessary system change in our industry.

While we are still at the beginning of this journey, we can build on a solid foundation of our materiality analysis, previous work and a clear understanding of our biggest issues. Inspired by our action-oriented culture, our do.STRATEGY is about concentrating our efforts where the biggest change is needed and where we can make the greatest difference. This means focusing on four areas – employees (do.GROW), supply chain and products (do.KNOW), environment (do.PROTECT) and society (do.CONNECT) – against which we have set out clear impact visions regarding system changes we want to contribute to and specific targets to measure our progress.

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, is provided in the separate section 1.2 Corporate Responsibility²¹ 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 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.



zln.do/en-responsibility



Further Information
Corporate Responsibility
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21) The sustainability report is not part of the audited combined management report.

4.1 BACKGROUND TO THE GROUP

- **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 and apps. As a result, the ratio of site visits from mobile devices to the total number of site visits increased by around 8.7 percentage points in 2018, rising from 70.7 in 2017 to 79.3.
- **Number of active customers:** The Zalando group measures its success by the number of active customers. Each customer that has placed at least one order within the last year (based on the reporting date) is considered active. Compared to the prior year, the number of active customers increased by 3.3m, rising from 23.1m to 26.4m in 2018.
- **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 2018, the number of orders placed increased from 90.5m in 2017 to 116.2m.
- **Average number of orders per active customer:** The average number of orders placed by active customers during the last twelve months totaled 4.4 as of December 31, 2018 (prior year: 3.9). This key performance indicator (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 2018 from EUR 64.5 to EUR 61.0. 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 software components of its platform internally. The developments relate to a structured, labor-intensive phase of programming new functionalities as well as enhancing the existing system landscape by significant system functionalities along the entire value and process chain. This ensures that the software is aligned with the operating processes and systems in the best possible way. Development work at Zalando is performed by teams of developers that are organized by the respective function or business unit, for example Fashion Store, Payments, Zalando Marketing Services, Zalon, zLabels and Offprice.

In particular, order, fulfillment and advertising processes are supported using internally developed software. For example, one technical development in 2018 allows brands to book influencers on our platform to create engaging campaigns. Another new technical development increases the transport and loading units per warehouse.

In 2018, the group recognized development costs of EUR 54.9m (prior year: EUR 51.2m), of which EUR 28.4m relate to assets under development (prior year: EUR 36.8m). The increase in development costs is attributable to new projects and enhancements needed for continued innovation and growth of Zalando.

Research costs were immaterial.

4.2 Report on Economic Position

- European and German internet retailing and online fashion sales continue to grow strongly.
- Zalando closes a successful fiscal year 2018 despite a challenging market environment.
- All segments contribute to the 20.0% increase in revenue to EUR 5,388m.
- EBIT stands at EUR 119.2m, the EBIT margin at 2.2%.
- Cash flow from operating activities comes to EUR 212.8m.

4.2.1 Macroeconomic and Sector-Specific Environment

In line with previous years, the consumer inclination towards online shopping continued in 2018. Online fashion in Europe grew by 12.0%²², closing with a trading volume of EUR 66.6bn²³. This outperformed the fashion sector, which posted a growth of 2.5%²⁴ at a trade volume of around EUR 430.0bn²⁵.

German online fashion sales increased by roughly 5.0%²⁶ in 2018 to a market size of about EUR 15.9bn²⁷. On the other hand, fashion trading volumes stagnated with an estimated 0.0%²⁸ growth. This could be a result of declined footfall in brick-and-mortar stores and the unseasonable weather which was experienced in Germany in several months in 2018.

As a result, industry sentiment for online retail and fashion continues to be positive. Moreover, we believe our business model is in a favorable position due to sector-specific trends.

Innovation and technology remain a fundamental driver for online consumption. Western Europe, our dominant footprint, still has the highest internet penetration rate compared to other regions such as the Americas and Asia²⁹. Coupled with increasing online fashion penetration rates in this region, we believe online fashion will continue to grow at the expense of brick-and-mortar stores.

- The increased availability of smartphones and on-demand internet access has a positive effect on online fashion consumption. Throughout Europe, consumers are continually using smartphones for online shopping. As a result, mobile shopping is projected to grow by 19.6%³⁰ in 2019.
- Furthermore, our key market, Germany has a high concentration of affluent shoppers. It has a relatively high purchasing power index, ranking among the top 10 in European countries³¹. Additionally, purchasing power per person has increased nominally by 3.3%³² from the previous year, which could have positive spillovers in fashion spending.
- Lastly, average gross margins for online fashion retailers range between 40% and 60%³³, considerably more attractive than average margins in other online product categories, such as electronics.

4.2.2 Business Development

Despite a challenging environment, Zalando managed to continue growth and profitability in 2018. Compared to 2017, the group reported 20.0% revenue growth in the period to EUR 5,388m



www.euromonitor.com

22) Euromonitor, Europe excl. Russia, Germany

23) Ibid

24) Ibid

25) Ibid

26) Ibid

27) Ibid

28) Ibid

29) Statista 2019

30) Euromonitor, Europe excl. Russia

31) GFK 2018

32) GFK 2019

33) Company information, average gross margins of selected publicly listed e-commerce companies in 2014 including Asos, Yoox and Boohoo based on publicly available information.

(prior year: EUR 4,489m). All segments contributed to this: revenues in the Fashion Store segment increased by 19.7%, in the Offprice segment by 44.1%, and in all other segments by 28.8%. Within the Fashion Store segment, revenues in the DACH region increased by 15.5% and by 24.2% in the Rest of Europe. The group recorded EBIT of EUR 119.2m in 2018 (prior year: EUR 187.6m), which corresponds to an EBIT margin of 2.2% (prior year: 4.2%). The decrease of 2.0 percentage points reflects a challenging market environment and the group's ongoing growth investments in customer and brand proposition and in infrastructure.

Apparel remained Zalando's biggest product category, followed by shoes and sports. The customer base continued to grow strongly, reaching 26.4m active customers at the end of 2018 (23.1m at the end of 2017). 3,137m visits to the Zalando Fashion Store were counted in 2018 (2,564m in 2017), of which an impressive 79.3% were conducted from a mobile device (70.7% in 2017).

As in previous years, Zalando put customer satisfaction as its main objective and invested significantly in its customer proposition, including assortment and convenience and categories.

In March, Zalando extended its fashion and lifestyle offering by launching Beauty in Germany, with a variety of more than 4,000 products by 120 brands for women in Germany at launch. Through the launch of the Beauty category, Zalando offers even more discovery and inspiration; establishing itself as the go-to destination for fashion and lifestyle products in Europe. Zalando further enhanced the beauty assortment during the year by adding a considerable beauty offering for men, the opening of a dedicated Beauty Station in Berlin together with the launch of four Estée Lauder brands. The beauty assortment was rolled out to Austria and Poland just before Christmas.

Zalando further continued its growth strategy this year and opened Zalando online shops in Ireland and the Czech Republic in summer. Zalando is now represented in 17 European countries as a result. With the two new countries, Zalando has opened up its offer to an additional 15.4 million Europeans. In addition to expanding into two new countries, Zalando further localized its offering in Germany and Switzerland by offering additional language versions of the online store.

The offline outlet business also continued to grow in 2018. Two new outlet stores were opened during the year, increasing the total number of stores to five.

Zalando added another tech hub to its portfolio. The opening in Lisbon constitutes Zalando's third technology hub outside of Germany following the opening of the technology hubs in Dublin and Helsinki in 2015. The opening of a dedicated technology hub with a strong focus on the digital experience of the Fashion Store is a strategic step to ensure that we stay ahead of customer expectations in terms of personalization, inspiration and frictionless shopping. Overall, Zalando's Tech Team has grown to a headcount of more than 2,000 employees across all locations who develop and drive all critical processes in-house.

Zalando continues to strengthen its platform. One component of the Zalando platform is Connected Retail. Through Connected Retail, partners can take orders from Zalando customers themselves and ship the goods directly from their physical stores. By the end of 2018, Connected Retail reached a new milestone: more than 600 physical stores have plugged into the Zalando platform.

The company further developed its operational structure in 2018 to provide the best fulfillment experience for online fashion in Europe. Three new sites joined the Zalando logistics network, which will soon comprise 11 fulfillment centers in five markets. The new logistics sites enable Zalando to increase its capacity and even better serve the growing customer base across Europe.

The new site in Lodz (Gluchow) is one of three fulfillment centers for Zalando in Poland, next to Szczecin (Gryfino) and Olsztynek, and measures 130,000 square meters, similar to the central hubs in Germany (Erfurt, Mönchengladbach and Lahr). The operation in Lodz (Gluchow) will be run by an external provider, and the first operational tests were started at the end of 2018.

Zalando Lounge celebrated the roofing ceremony at the construction site of a new fulfillment center servicing Zalando Lounge, in Olsztynek, Poland, in July 2018. Construction of the 130,000 square meter fulfillment center began in February 2018. The center will be managed by an external provider. Operations will begin in early 2019. With the new location, Zalando Lounge will increase its logistics capacity and make operational processes even more flexible. Intralogistics are tailored to the specific needs of Zalando Lounge, which include time-limited campaigns and sometimes larger home products.

The logistics hub of Verona (Nogarole Rocca) in Italy will be 130,000 square meters in size. The construction work of the fulfillment center started in February 2018. Initial operations will begin at the end of 2019. The center will be managed by an external provider.

The total number of employees increased by about 3.5% to 15,619. The growth was primarily driven by the increasing headcount in the Operations Department. 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 2018 at EUR 22.44.



Further Information
The Zalando Share – 2018
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4.2 REPORT ON ECONOMIC POSITION

4.2.3 Economic Situation

Financial Performance of the Group

The consolidated income statement for 2018 shows strong revenue growth and solid profitability, while we continued to push forward our investments in customer experience, brand partner proposition, technology and operations infrastructure.

GRI 103-1/-2/-3 MA
Economic Performance
GRI 201-1

Consolidated Income Statement

→ 20

IN EUR M	Jan 1 – Dec 31, 2018	As % of revenue	Jan 1 – Dec 31, 2017	As % of revenue	Change
Revenue	5,387.9	100.0%	4,489.0	100.0%	0.0pp
Cost of sales	-3,107.0	-57.7%	-2,529.6	-56.4%	-1.3pp
Gross profit	2,280.9	42.3%	1,959.4	43.6%	1.3pp
Selling and distribution costs	-1,899.2	-35.2%	-1,530.8	-34.1%	-1.1pp
Administrative expenses	-268.9	-5.0%	-242.9	-5.4%	0.4pp
Other operating income	18.7	0.3%	11.8	0.3%	0.1pp
Other operating expenses	-12.3	-0.2%	-9.9	-0.2%	0.0pp
Earnings before interest and taxes (EBIT)	119.2	2.2%	187.6	4.2%	-2.0pp



Further Information
Consolidated Statement of
Comprehensive Income
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Other Consolidated Financial Information

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IN EUR M	Jan 1 – Dec 31, 2018	Jan 1 – Dec 31, 2017	Change
EBIT margin (as % of revenue)	2.2%	4.2%	-2.0pp
Adjusted EBIT	173.4	215.1	-41.7
Adjusted EBIT margin (as % of revenue)	3.2%	4.8%	-1.6pp
EBITDA* (in EUR m)	205.7	246.4	-40.7
EBITDA margin (as % of revenue)	3.8%	5.5%	-1.7pp
Adjusted EBITDA	259.9	273.8	-14.0
Adjusted EBITDA margin (as % of revenue)	4.8%	6.1%	-1.3pp

*) 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 86.5m in 2018 (prior year: EUR 58.7m).

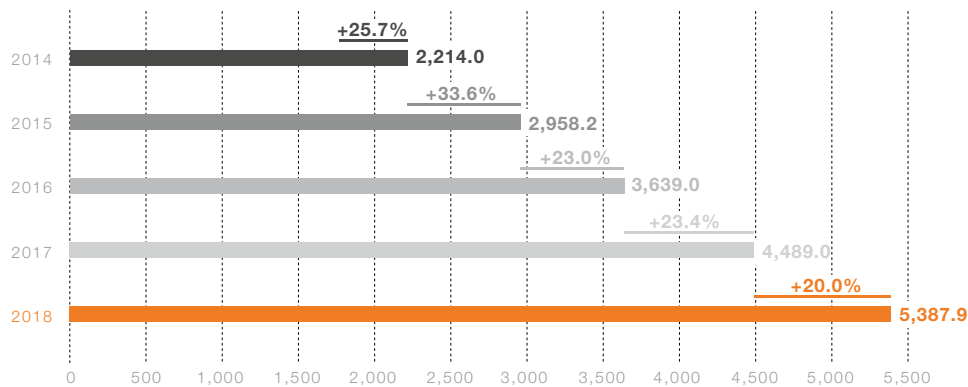
4.2 REPORT ON ECONOMIC POSITION

Development of Revenue

Annual Revenue Growth (2014 – 2018)

→ 22

IN EUR M

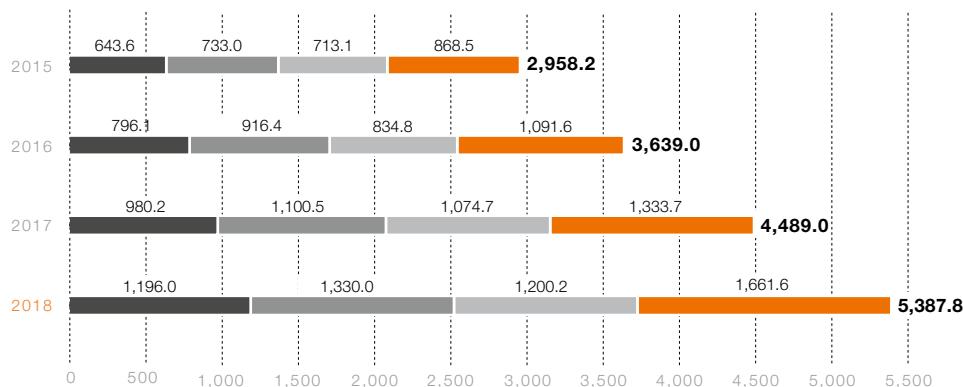


In 2018, Zalando increased its revenue by 20.0% or EUR 898.9m from EUR 4,489.0m to EUR 5,387.9m.

Revenue by Quarter (2015 – 2018)

→ 23

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 fashion sale periods that are typical towards season end. At EUR 1,661.6m, group revenue in the fourth quarter was up 24.6% on the comparable period of the prior year (Q4 2017: EUR 1,333.7m).

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

Key Performance Indicators*

→ 24

	Jan 1 – Dec 31, 2018	Jan 1 – Dec 31, 2017	Change
Site visits (in millions)	3,137.2	2,563.5	22.4%
Mobile visit share (as % of site visits)	79.3	70.7	8.7pp
Active customers (in millions)	26.4	23.1	14.4%
Number of orders (in millions)	116.2	90.5	28.4%
Average orders per active customer	4.4	3.9	12.3%
Average basket size (in EUR)	61.0	64.5	-5.4%
Revenue (in EUR m)	5,387.9	4,489.0	20.0%
EBIT (in EUR m)	119.2	187.6	-36.5%
EBIT margin (as % of revenue)	2.2	4.2	-2.0pp
Adjusted EBIT (in EUR m)	173.4	215.1	-19.4%
Adjusted EBIT margin (as % of revenue)	3.2	4.8	-1.6pp
EBITDA (in EUR m)	205.7	246.4	-16.5%
EBITDA margin (as % of revenue)	3.8	5.5	-1.7pp
Adjusted EBITDA (in EUR m)	259.9	273.8	-5.1%
Adjusted EBITDA margin (as % of revenue)	4.8	6.1	-1.3pp
Net working capital (in EUR m)	-84.3	-62.4	35.1%
Operating cash flow (in EUR m)	212.8	193.7	9.8%
Capex (in EUR m)	-278.4	-243.9	14.2%
Free cash flow (in EUR m)	-13.8	-85.0	-83.8%

*) 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 forecasted for fiscal year 2019 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, 2018, the group had 26.4 million active customers. This corresponds to an increase of 14.4% compared to the prior year, or 3.3 million additional active customers. The larger customer base ordered more frequently compared to the prior year with the average number of orders per active customer rising 12.3%. The higher number of customer orders, which

4.2 REPORT ON ECONOMIC POSITION

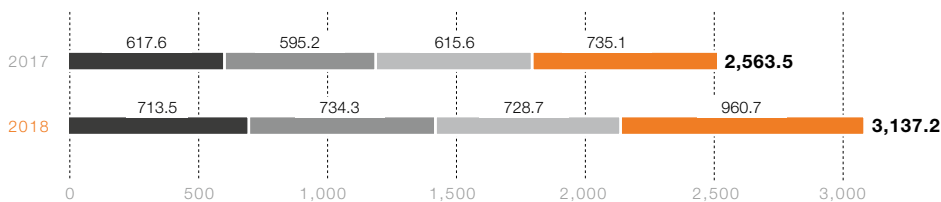
increased by 28.4%, was driven in particular by a 22.4% increase in site visits. The considerable rise in these revenue drivers was enabled by our continued focus on investing in the consumer and brand proposition as well as in our technology and operations infrastructure. The average basket size decreased in fiscal year 2018 from EUR 64.5 to EUR 61.0, which was mostly driven by the increased mobile site visit share and increased share of lower priced items, such as fast fashion. Customers tend to shop more frequently but with a lower basket size.

Higher website traffic also reflects a significant increase in the share of visitors accessing the website on mobile devices. Compared to the prior year, the share of site visits via mobile devices rose by 8.7 percentage points to 79.3% in 2018.

Site Visits by Quarter (2017–2018)

→ 25

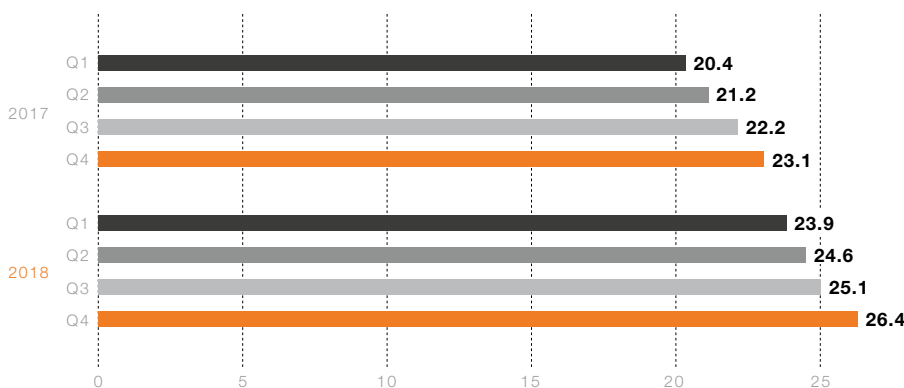
IN M



Number of Active Customers by Quarter (2017–2018)

→ 26

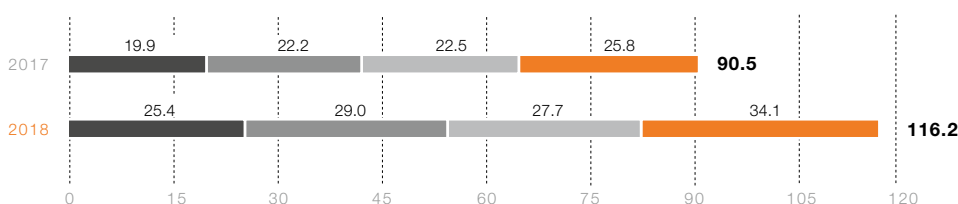
IN M



Number of Orders by Quarter (2017–2018)

→ 27

IN M

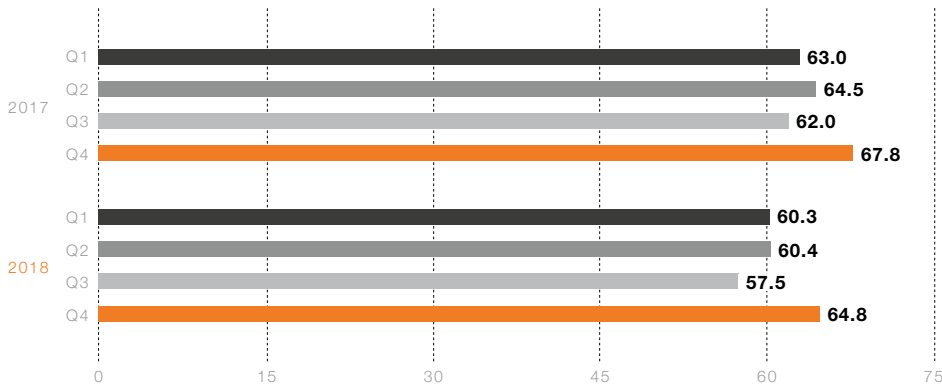


4.2 REPORT ON ECONOMIC POSITION

Average Basket Size by Quarter (2017–2018)

→ 28

IN EUR

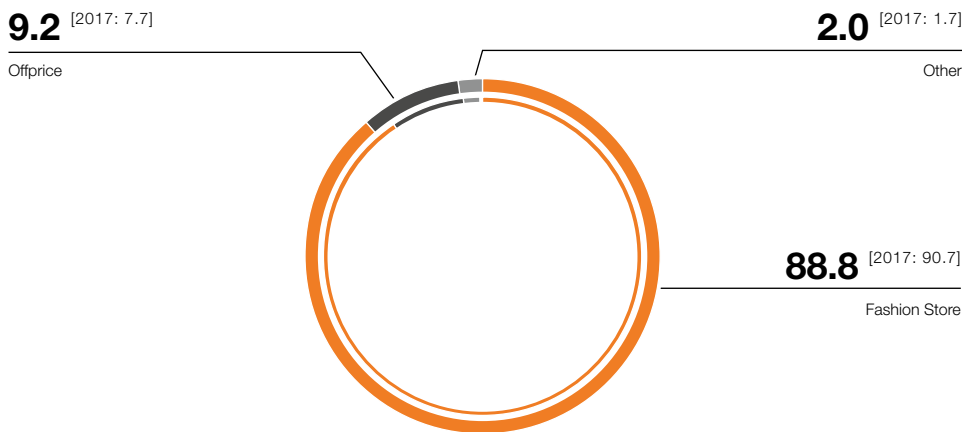


External revenue by segment breaks down as follows:

Revenue by Segment³⁴

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IN %



In fiscal year 2018, the Fashion Store generated the majority of external revenue. Revenue in the Offprice and all other segments increased significantly, contributing strongly to the overall revenue growth.

34) Figures in this chart reflect revenue excluding intersegment revenue.

4.2 REPORT ON ECONOMIC POSITION

In the Fashion Store segment, revenue including intercompany transactions reached EUR 4,967.7m in 2018 (prior year: EUR 4,150.5m), equivalent to an increase of 19.7% compared with 2017.

The Offprice segment generated revenue of EUR 497.5m in 2018 (prior year: EUR 345.3m). This corresponds to a 44.1% increase in revenue compared to 2017.

All other segments achieved revenue of EUR 444.8m in 2018 (prior year: EUR 345.3m), increasing by 28.8%. All other segments include the private label offering zLabels and various emerging businesses.

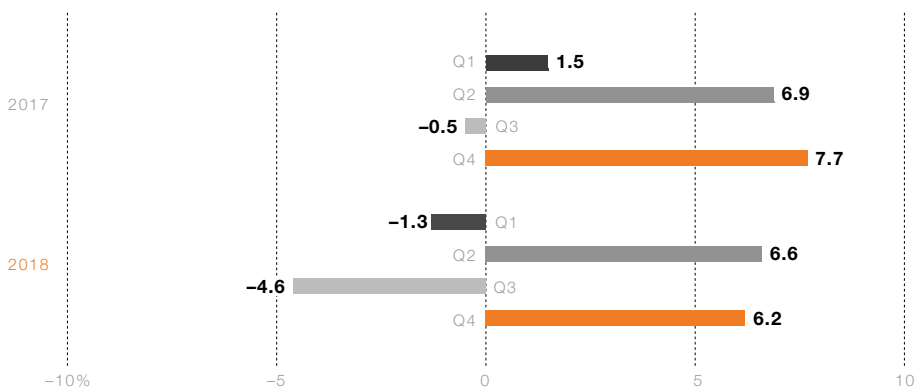
Development of EBIT

The group recorded EBIT of EUR 119.2m in 2018 (prior year: EUR 187.6m), which corresponds to an EBIT margin of 2.2% (prior year: 4.2%) and represents a decrease of 2.0 percentage points. The decrease in EBIT margin is mainly driven by a higher fulfillment cost ratio and lower gross margin that could not be fully offset by lower marketing and administration cost ratios.

EBIT Margin by Quarter (2017–2018)

→ 30

IN %

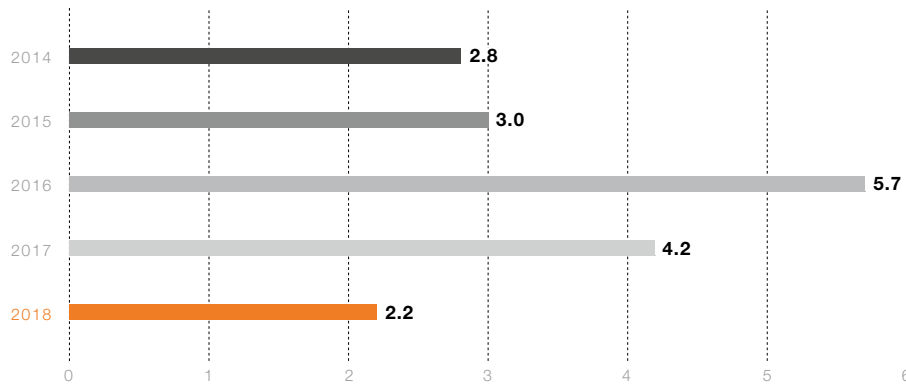


4.2 REPORT ON ECONOMIC POSITION

Yearly EBIT Margin (2014–2018)

→ 31

IN %

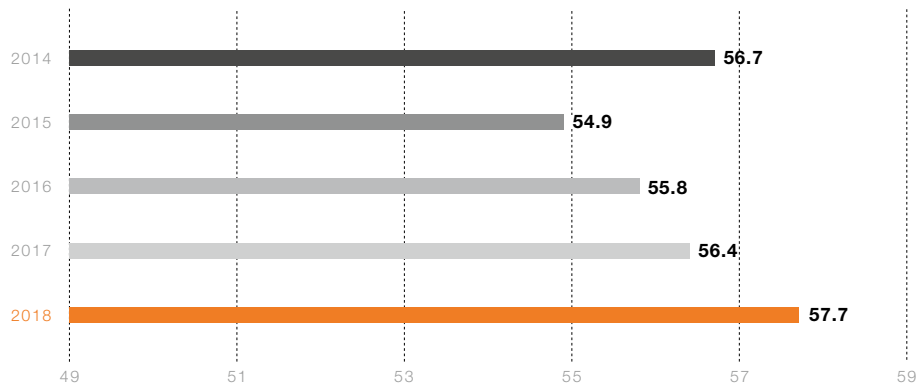


Five-Year Summary of Cost Items (Non-Adjusted)

Cost of Sales (2014–2018)

→ 32

AS % OF REVENUE

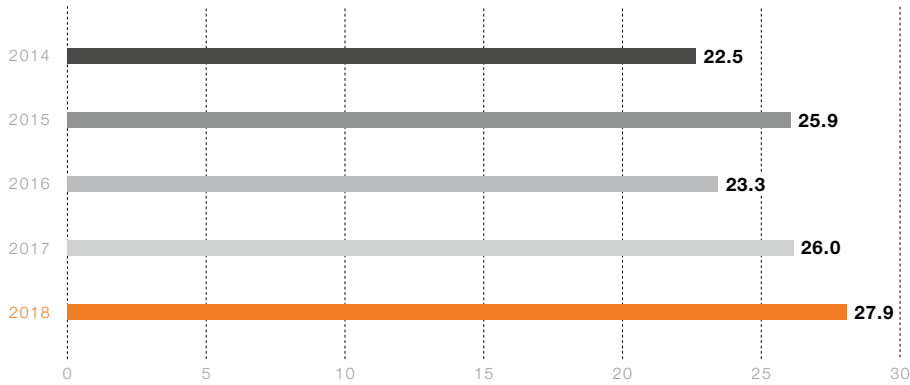


4.2 REPORT ON ECONOMIC POSITION

Fulfillment Costs (2014–2018)

→ 33

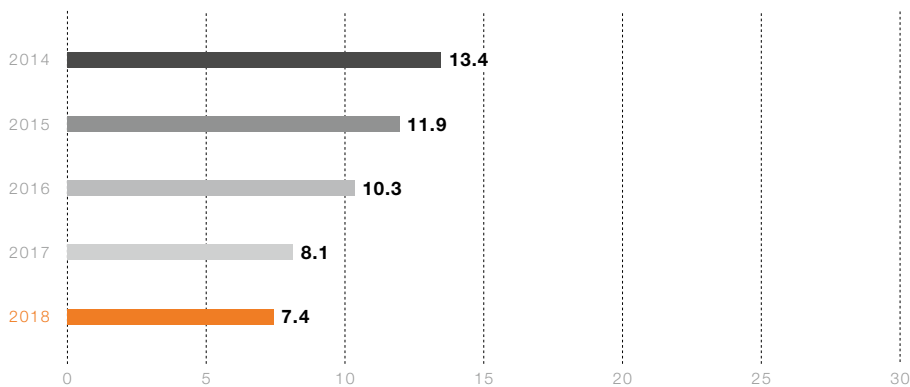
AS % OF REVENUE



Marketing Costs (2014–2018)

→ 34

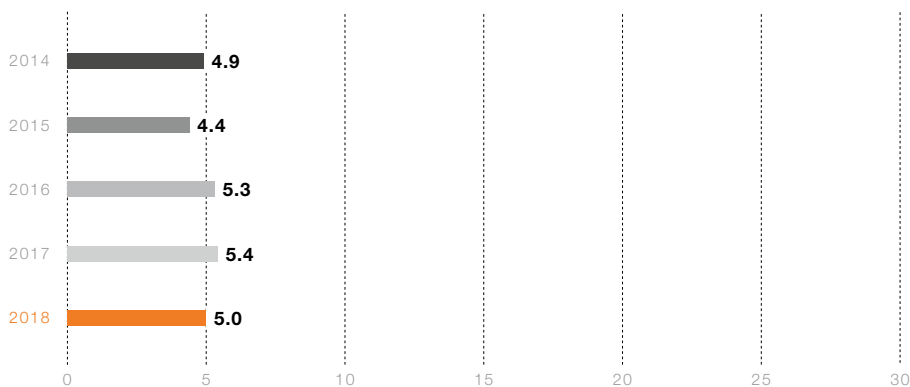
AS % OF REVENUE



Administrative Expenses (2014–2018)

→ 35

AS % OF REVENUE



Cost of sales rose by 22.8% year-on-year from EUR 2,529.6m to EUR 3,107.0m, with the gross margin decreasing by 1.3 percentage points from 43.6% to 42.3%, mostly due to a higher average discount rate. Furthermore, in Q3 2018 we recorded higher allowances for goods for defective returns. Due to internal operational mistakes, a higher than usual share of inventory was classified as damaged returns. This matter was resolved already during Q3 2018.

Selling and distribution costs rose by 24.1% year-on-year from EUR 1,530.8m to EUR 1,899.2m. This corresponds to an increasing ratio from 34.1% in 2017 to 35.2% as a percentage of revenue. Selling and distribution costs consist of fulfillment and marketing costs.

The fulfillment cost ratio as a percentage of revenue increased by 1.8 percentage points from 26.0% in 2017 to 27.9% in 2018. 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 to invest in the customer and brand propositions. Examples include the ramp-up of new fulfillment centers in southern Germany, Italy, Sweden and Poland and investments in convenience such as same day delivery to enhance our customer experience. Logistics costs were further negatively impacted by a decrease in average basket size. The decrease in the average basket size meant that the number of delivered orders increased more strongly than revenue, hence logistics costs also increased more strongly than revenue. Logistics costs were also impacted by higher transport costs, driven by increased carrier prices. Lastly, the change in the internal management structure in 2018 as described in the section Background to the Group resulted in a shift of activities within the organization that led to a shift of expenses from administrative expenses primarily to selling and distribution costs and also to cost of sales compared to the prior-year period. This effect was partly offset by another shift in share-based compensation expenses for the same reasons.

The marketing cost ratio improved by 0.7 percentage points, mainly due to continued efficiency gains. The improvement was partly offset by restructuring costs incurred in Q1 2018 that were related to a new setup that was established for the Marketing Department in connection with the organizational changes described in the section Background to the Group. Absolute marketing spending increased by EUR 35.2m to EUR 397.7m as we continue to invest in new customer acquisition, which is driven by expected total customer lifetime value. Marketing spend also included the extensive ten-year campaign celebrating Zalando's anniversary in fall.

Administrative expenses increased from EUR 242.9m in 2017 to EUR 268.9m in 2018, implying a decrease of 0.4 percentage points in proportion to revenue. The administration cost ratio was also influenced by the above-mentioned shift of expenses from administrative expenses to cost of sales and selling and distribution costs.

The EBIT margin decreased by 2.0 percentage points in comparison to the prior year, from 4.2% in 2017 to 2.2% in 2018. In absolute terms, EBIT decreased by EUR 68.4m from EUR 187.6m to EUR 119.2m. The main driver was the increase of 1.8 percentage points in the fulfillment cost ratio and the decrease of 1.3 percentage points in gross margin, which could not be fully offset by an improvement of 0.7 percentage points in the marketing cost ratio and of 0.4 percentage points in the administration cost ratio. With a net income of EUR 51.2m, Zalando remains clearly profitable overall.

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, restructuring costs and non-operating one-time effects.

EBIT comprises expenses from equity-settled share-based payments of EUR 43.3m (prior year EUR 27.5m).

In 2018, EBIT furthermore includes the above-mentioned restructuring costs of EUR 10.9m incurred in Q1 2018, mainly in connection with the implementation of a new setup of the Marketing Department. These costs are also adjusted for in the calculation of adjusted EBIT. In 2017, EBIT contained no restructuring costs.

Zalando recorded an adjusted EBIT of EUR 173.4m in 2018 (prior year: EUR 215.1m), which translates into an adjusted EBIT margin of 3.2% in 2018 (prior year: 4.8%). The decrease of adjusted EBIT is smaller than that of unadjusted EBIT as expenses for equity-settled share-based payments increased by EUR 15.8m and restructuring costs occurred in 2018 but not in 2017. As in 2017, EBIT contains no non-operating one-time effects to be adjusted in 2018.

The increase in expenses from equity-settled share-based payments in 2018 is mainly due to the grant of further tranches under the Equity Incentive Program (EIP) as well as the grant of the new long-term, share-based compensation of the Management Board, the Long Term Incentive 2018 (LTI 2018) in 2018 and the Virtual Stock Option Plan 2018 (VSOP 2018).

The change in the internal management structure as described in the section Background to the Group resulted in a shift of share-based compensation expenses between the different cost lines, which led to a slightly increased allocation to administrative expenses.

Results by Segment

As of January 1, 2018, ZALANDO SE changed its internal management structure. The focus is now primarily on sales channels rather than on geographical regions. In addition, Zalando has changed the way in which the information reported to the so-called chief operating decision maker referred to in IFRS 8 is presented. While reporting was previously on a consolidated basis, from January 1, 2018, onwards, revenue and profitability generated with external business partners as well as the internal transactions between segments of Zalando have been reported. The segment reporting has been adjusted accordingly. Please see section 2.1 Background to the Group for details.

4.2 REPORT ON ECONOMIC POSITION

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

Segment Results of the Group 2018

→ 36

IN EUR M	Fashion Store	Offprice	All other segments	Total	Reconciliation	Total group
Revenue	4,967.7	497.5	444.8	5,909.9	-522.0	5,387.9
thereof intersegment revenue	183.0	0.0	339.0	522.0	-522.0	0.0
Earnings before interest and taxes (EBIT)	115.8	32.3	-29.6	118.6	0.7	119.2
Adjusted EBIT	162.0	35.2	-24.4	172.7	0.7	173.4

Segment Results of the Group 2017

→ 37

IN EUR M	Fashion Store	Offprice	All other segments	Total	Reconciliation	Total group
Revenue	4,150.5	345.3	345.3	4,841.0	-352.0	4,489.0
thereof intersegment revenue	80.9	0.0	271.1	352.0	-352.0	0.0
Earnings before interest and taxes (EBIT)	189.0	26.0	-27.4	187.6	0.0	187.6
Adjusted EBIT	213.7	27.6	-26.3	215.1	0.0	215.1

Fashion Store Results by Region 2018

→ 38

IN EUR M	DACH	Rest of Europe	Fashion Store
Revenue	2,483.7	2,484.0	4,967.7
thereof intersegment revenue	96.7	86.3	183.0
Earnings before interest and taxes (EBIT)	116.7	-0.9	115.8

Fashion Store Results by Region 2017

→ 39

IN EUR M	DACH	Rest of Europe	Fashion Store
Revenue	2,150.0	2,000.4	4,150.5
thereof intersegment revenue	42.2	38.8	80.9
Earnings before interest and taxes (EBIT)	180.8	8.2	189.0

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

4.2 REPORT ON ECONOMIC POSITION

In 2018, revenue grew by 19.7% in the Fashion Store segment, by 44.1% in the Offprice and by 28.8% in all other segments, compared to the prior year.

The Fashion Store segment realized an EBIT margin of 2.3% in 2018, a decrease of 2.2 percentage points compared to the prior year. This decline mainly resulted from increased fulfillment costs, especially logistics costs and a lower gross margin, partly compensated by lower marketing and administration cost ratios.

The Offprice segment recorded EBIT of EUR 32.3m with the EBIT margin decreasing from 7.5% in the prior year to 6.5% in 2018, mainly caused by a lower gross margin. The decrease in gross margin was impacted by increasing internal sourcing costs driven up by updated, newly negotiated internal transfer prices. All other segments recorded an increase of 1.3 percentage points, resulting in an EBIT margin of -6.6% in 2018.

Adjusted EBIT by Segment

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

Share-Based Compensation Expenses per Segment

→ 40

IN EUR M	Jan 1 – Dec 31, 2018	Jan 1 – Dec 31, 2017	Change
Equity-settled share-based compensation expenses	43.3	27.5	15.8
Fashion Store	36.1	24.7	11.4
Offprice	2.8	1.6	1.2
All other segments	4.3	1.1	3.2

EBIT furthermore contains the above-mentioned restructuring costs incurred in Q1 2018 with EUR 10.0m in the Fashion Store segment, EUR 0.1m in the Offprice segment and EUR 0.8m in all other segments. The prior year did not contain any restructuring costs.

The Fashion Store segment generated an adjusted EBIT margin of 3.3% in 2018, which translates into a decrease of 1.9 percentage points when compared to the prior year. The Offprice segment recorded an adjusted EBIT margin of 7.1%, a decline of 0.9 percentage points in the adjusted EBIT margin compared to the prior year. All other segments generated an adjusted EBIT margin of -5.5% in 2018, representing an increase of 2.1 percentage points. The development in adjusted EBIT and adjusted EBIT margin resulted almost exclusively from the drivers described above for unadjusted EBIT. However, the development of the adjusted EBIT margins is slightly better than the development of the unadjusted EBIT margins throughout all segments as expenses for equity-settled share-based payments increased more strongly than revenue in all segments.

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

→ 41

IN EUR M	Jan 1 – Dec 31, 2018	Jan 1 – Dec 31, 2017
Cash flow from operating activities	212.8	193.7
Cash flow from investing activities	-207.0	-88.3
Cash flow from financing activities	-75.9	-10.6
Change in cash and cash equivalents	-70.1	94.8
Exchange-rate related and other changes in cash and cash equivalents	0.3	-1.9
Cash and cash equivalents at the beginning of the period	1,064.7 *	972.6
Cash and cash equivalents as of December 31	995.0	1,065.5

*) Cash and cash equivalents at the beginning of the period include the effect from the initial application of IFRS 9 of EUR -0.8m. See section 3.5.3 New Accounting Standards in the notes to the consolidated financial statements for details.

In fiscal year 2018, Zalando generated a positive cash flow from operating activities of EUR 212.8m (prior year: EUR 193.7m). Despite a decrease in pre-tax income (from EUR 175.2m in the prior year to EUR 105.6m in the reporting year), cash flow from operating activities increased largely due to a higher cash inflow from working capital (prior year: cash outflow) and higher non-cash expenses such as depreciation and expenses from share-based payments. This was partly offset by the increase in cash outflows (prior year: cash inflows) for VAT receivables, VAT payables and prepayments received.

The capital employed in net working capital decreased compared to the prior year and thus positively impacted the cash flow. Net working capital, consisting of inventories and trade and other receivables less trade payables and similar liabilities, decreased from EUR -62.4m in the prior year to EUR -84.3m as of December 31, 2018 (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 Verona (Nogarole Rocca), Italy; Lodz (Gluchow), Poland; Szczecin (Gryfino), Poland; and Lahr and capital expenditures on internally developed software and also from furniture and fixtures. Capex, being the sum of the payments for investments in fixed and intangible assets excluding payments for acquisitions, amounted to EUR 278.4m (prior year: EUR 243.9m). Furthermore, in 2018 payments of EUR 57.0m were received resulting from the sale of a fulfillment center in Szczecin (Gryfino), Poland. The fulfillment center was leased back (operating lease) by Zalando after the sale. In 2018, an amount of EUR 7.1m was invested in corporate acquisitions (prior year: 34.9m).

As a result, free cash flow increased by EUR 71.3m from EUR -85.0m to EUR -13.8m compared to the prior year.



Further Information
Consolidated Statement
of Cash Flows
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Cash flow from investing activities further consists of cash disinvested in term deposits which have an original term of more than three months and are therefore presented in cash flow from investing activities. In 2018, cash inflows from maturing term deposits amounted to EUR 20.0m, whereas the prior year contained cash inflows of EUR 180.0m. As of December 31, 2018, an amount of EUR 20.0m was still invested in such term deposits (December 31, 2017: EUR 40.0m).

The cash flow from financing activities mainly includes cash paid for the repurchase of treasury shares amounting to EUR 110.9m (prior year: EUR 6.7m) and cash received from capital increases amounting to EUR 38.2m (prior year: EUR 3.9m).

As a result, cash and cash equivalents decreased by EUR 70.5m during the year, resulting in Zalando carrying cash and cash equivalents of EUR 995.0m as of December 31, 2018.

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 in 2018 by EUR 90.5m to EUR 1,015.0m.

Credit Facility

On December 15, 2016, ZALANDO SE entered into a revolving credit facility for an 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, 2023. As of December 31, 2018, an amount of EUR 69.7m 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

→ 42

IN EUR M	Dec 31, 2018		Dec 31, 2017		Change	
Non-current assets	760.2	23.5%	569.6	19.1%	190.6	33.5%
Current assets	2,473.5	76.5%	2,410.7	80.9%	62.8	2.6%
Total assets	3,233.7	100.0%	2,980.3	100.0%	253.5	8.5%

Equity and Liabilities

→ 43

IN EUR M	Dec 31, 2018		Dec 31, 2017		Change	
Equity	1,549.1	47.9%	1,538.9	51.6%	10.2	0.7%
Non-current liabilities	70.9	2.2%	71.9	2.4%	-1.0	-1.3%
Current liabilities	1,613.7	49.9%	1,369.5	46.0%	244.2	17.8%
Total equity and liabilities	3,233.7	100.0%	2,980.3	100.0%	253.5	8.5%



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of Financial Position
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In 2018, total assets increased by 8.5%. The statement of financial position is dominated by working capital, cash and cash equivalents and equity.

In 2018, investments in intangible assets amounted to EUR 57.3m (prior year: EUR 108.7m, thereof EUR 53.9m resulting from business combinations, which did not occur in 2018), while investments in property, plant and equipment totaled EUR 244.3m (prior year: EUR 189.7m).

Key components of the software used by the group are developed internally. This ensures that the software is aligned with the operating processes and systems in the best possible way. For example, order and fulfillment processes are supported using internally developed software. In fiscal year 2018, additions related to capitalized development costs amounted to EUR 54.9m (prior year: EUR 51.2m), of which EUR 28.4m is contained in prepayments and assets under development (prior year: EUR 36.8m).

Inventories in 2018 mainly represent goods required for Zalando's wholesale business. The EUR 40.6m increase in inventories to EUR 819.5m resulted from the increased business volume.

Trade and other receivables as reported on December 31, 2018, are all current. The increase of EUR 116.4m to EUR 395.1m is primarily attributable to the higher sales volume towards the end of the period.

Equity rose from EUR 1,538.9m to EUR 1,549.1m in the fiscal year. The EUR 10.2m increase primarily stems from the net income in the period, from contributions made under the share-based payment plans and from capital increases, partly offset by repurchases of treasury shares. In the reporting period, the equity ratio fell from 51.6% at the beginning of the year to 47.9% as of December 31, 2018, due to higher total assets.

Current liabilities increased by EUR 244.2m in the reporting period. This increase is mainly attributable to trade payables and similar liabilities, which rose by EUR 178.9m from EUR 1,120.0m last year to EUR 1,298.9m in the reporting period. The increase is largely due to deliveries of merchandise in light of the higher business volume. Moreover, under reverse factoring agreements, suppliers' claims against Zalando totaling EUR 374.6m were transferred to various factors as of December 31, 2018 (December 31, 2017: EUR 328.9m). These items were recognized in the statement of financial position under trade payables and similar liabilities.

Net working capital, consisting of inventories and trade and other receivables less trade payables and similar liabilities, decreased from EUR -62.4m in the prior year to EUR -84.3m as of December 31, 2018. The decrease results mainly from the increase in trade payables and similar liabilities, which reflects the higher business volume and the increased reverse factoring usage.



Further Information
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of Changes in Equity
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Overall Assessment

The Management Board views the business development in 2018 as positive. Zalando focused on growth opportunities, made key strategic investments and remained solidly profitable in the process. The Zalando group increased revenue strongly in fiscal year 2018 and gained additional market share. EBIT decreased compared to prior year as a result of a challenging market environment, plus ongoing growth investments in consumer and brand propositions and infrastructure.

In a challenging market environment, we managed to achieve revenue growth within the target growth corridor but did not fully meet our adjusted EBIT target in 2018. The 2017 group management report anticipated revenue growth in 2018 in the corridor between 20% and 25% and an adjusted EBIT of between EUR 220m and EUR 270m. In the second quarter of 2018, Zalando specified its guidance for revenue growth to the lower half of its guided range of 20% to 25% and for adjusted EBIT to the low end of the range. As the extended and unusually hot summer period and a delayed switch to the fall/winter season weighed on revenue growth and adjusted EBIT, Zalando revised its guidance during the third quarter of 2018. The modified guidance for revenue around the low end of the 20% to 25% target growth corridor and for adjusted EBIT of EUR 150m to EUR 190m was met by year-end. In this context, the expected increase in the active customer base as well as an increase in the number of orders per active customer was expected, which actually occurred.

The 2017 group management report anticipated capital expenditure at an elevated level of around EUR 350m. In the third quarter of 2018, Zalando revised its capex guidance to an amount of around EUR 300m, as Zalando is further optimizing its logistics footprint and projects were spread over a longer period of time. By and large, this revised target was met, with reported capital expenditures amounting to EUR 278.4m at year-end.

Overall, in 2018 the group achieved solid growth and remained clearly profitable.

4.2.4 Employees

At the end of 2018, Zalando had 15,619 employees (prior year: 15,091), representing an increase of 3.5% on the prior year. The average headcount grew by 1,586 to 15,526. The growth was mainly driven by the increasing headcount in the Operations Department.

Additional information regarding our sustainability strategy is provided in the separate section 1.2, Corporate Responsibility³⁵.



Further Information
Corporate Responsibility
p. 8

³⁵⁾ 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

- Identifying and quickly taking action on opportunities as well as mitigating risks are essential for our company.
- We define opportunities and risks as events that in case they materialize would result in positive or negative deviations from our business goals.
- We identified no risks that might threaten Zalando as a going concern, in the current forecasting period.

As an international company, Zalando has exposure to a wide range of macroeconomic, sector-specific, financial and company-specific risks and opportunities. This Risk and Opportunity Report presents the risks and opportunities considered material for Zalando and provides an overview of the risk and opportunity management system implemented.

4.4.1 Risk and Opportunity Management System

The Management Board of ZALANDO SE assumes overall responsibility for the development and operation of an effective risk and opportunity management system (RMS) for Zalando.

The Risk Management Team, as the dedicated instrument of the Management Board, has implemented the RMS based on the framework of the Committee of Sponsoring Organizations of the Treadway Commission (COSO) Enterprise Risk Management Standard as well as on the Institute of Public Auditors in Germany (IDW) Assurance Standard 981. The RMS at Zalando consists of the following elements:

RMS Elements

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Risk and Opportunity Objectives

The objective of the RMS is to create the necessary transparency about risks and opportunities for decision makers, foster a risk and opportunity culture, and to create a common understanding of risks and opportunities throughout the company.

Risk and Opportunity Identification and Monitoring

Using multiple instruments, such as workshops and self-assessments, the identification and assessment of risks and opportunities are carried out both by the risk and opportunity owners during the course of day-to-day operations and by the Risk Management Team on a half-yearly basis. Moreover, we have implemented an ad-hoc reporting which informs the Risk Management Team about current risk events and changes.

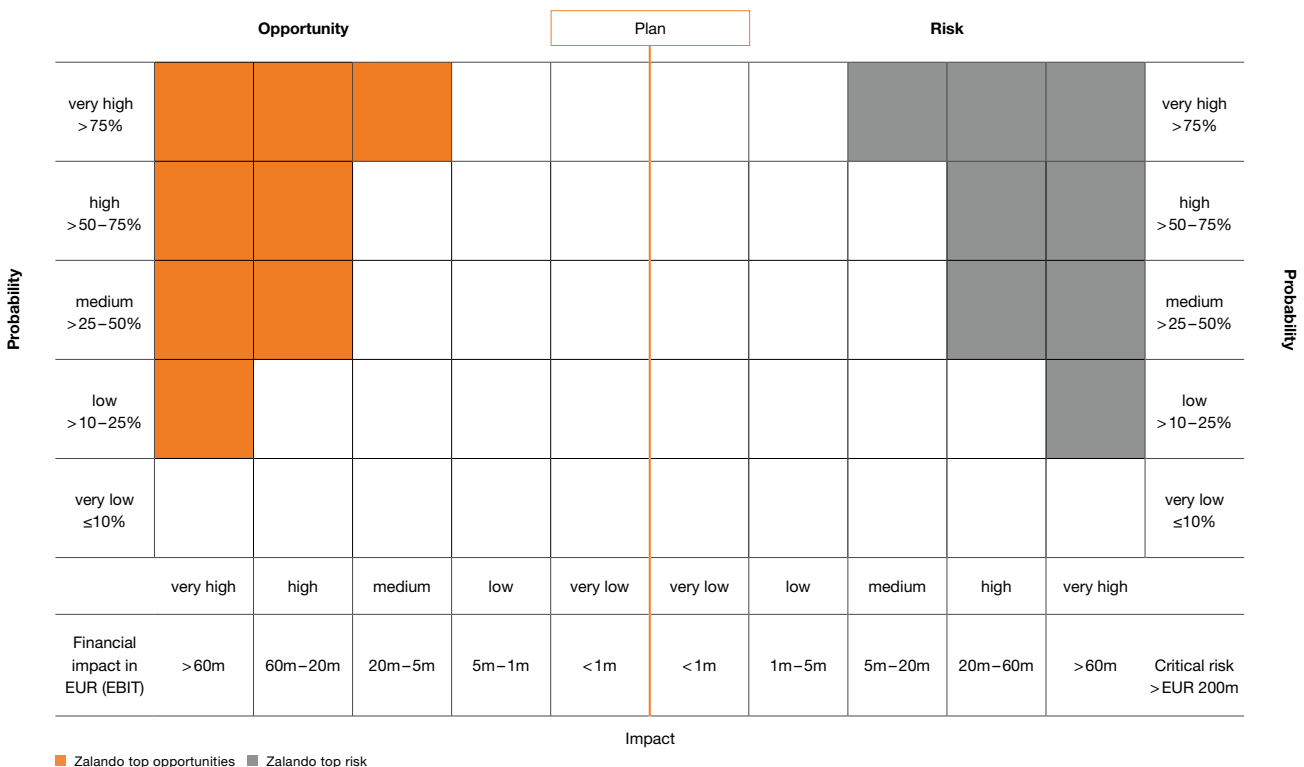
The systematic identification and utilization of opportunities are important elements in ensuring sustainable growth. Opportunities are considered in connection with possible risks and are only pursued if they outweigh the risks associated with them if risk steering is possible and if any risk impact can be regarded as limited.

Risk and Opportunity Assessment

All risks and opportunities identified are evaluated for their probability of occurrence and their potential impact based on a one-year time horizon. The positioning of each risk/opportunity is assessed using the following risk and opportunity matrix:

Risk and Opportunity Matrix

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The probability of occurrence represents the possibility that a specific impact for a risk or opportunity may materialize within the defined time horizon. The impact assessment is conducted on quantitative or qualitative scales. The quantitative scale refers to the potential financial impact on profit (EBIT) while the qualitative scales are considering the impact on the customer satisfaction, the company's reputation, consequences of legal infringements, the impact on social topics and human rights, and the effect on the environment. In order to improve the risk steering, the quantitative scale was slightly adjusted compared to the previous year. Zalando separately tracks risks that exceed EUR 200m as critical (prior year: EUR 250m), since they might threaten Zalando as a going concern.

In the assessment, we consider both gross and net risks. The gross risk represents the inherent risk before risk mitigation. The net risk is the remaining risk after all implemented mitigating measures are considered. Our risk assessment in this report reflects only the net risk.

Based on the assessment, risks and opportunities are defined as top risks or top opportunities if they display a material combination of probability and impact (denoted by the grey and orange shaded areas in figure 67).

Risk and Opportunity Control

Risk and opportunity owners are in charge of developing and implementing adequate risk mitigating and opportunity supporting measures within their area of responsibility. Depending on the type, characteristics, and assessment of the risks, different risk strategies are applied by the risk owners to reduce the risk, taking into account costs and effectiveness. Risk strategies can be risk acceptance, avoidance, reduction or transfer to a third party.

Risk and Opportunity Management Improvements and Reporting

The Risk Management Team reports on the overall risk and opportunity situation to the Management Board and the Supervisory Board's audit committee on a half-yearly basis. Additionally, senior management also receives an individual half-yearly report on the highest risks and opportunities within their areas of responsibility with supplemental ad-hoc reporting if required. Internal Audit conducts assessments of the adherence and effectiveness of relevant mitigating measures and controls as part of their scheduled audits. Internal Audit also reviews the functional capacity and appropriateness of RMS regularly and the audit committee of the Supervisory Board, with the involvement of the statutory auditor, monitors the effectiveness of the internal control, risk management, and audit systems.

System of Internal Controls over Financial Reporting

In addition to the overall RMS, Zalando has implemented a detailed system of internal financial reporting controls. Pursuant to Section 315 (4) HGB, the key features of this system are explained in the following. It aims to identify, assess and manage all risks that could have a significant impact on the appropriate content and presentation 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, which ensure a methodical process for preparing the financial statements. The internal control system is based on the company's various processes, which have a significant influence on financial reporting.

4.4 RISK AND OPPORTUNITY REPORT

These processes and the relevant risks for the financial reporting are analyzed and documented. A cross-process risk control matrix contains all controls, including 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 reviewed continuously and improved based on regular reviews by the Accounting Department, risk workshops conducted by the Risk Management Team, and risk-based assessments performed by the Internal Audit Team.

4.4.2 Illustration of Material Risks

Overall, we identified no risks that might threaten the going concern of ZALANDO SE. The table below shows the top risks which comprise all material risks in accordance with our RMS methodology. The impact and probability changes presented result solely from the risk assessment and not from the changes in the impact classes shown in chapter 2.4.1. Please note that due to their lack of materiality, financial risks (counterparty risk, liquidity risk as well as currency and interest rate risk) are not listed separately in the Risk and Opportunity Report but are addressed in the Other Notes (see section 3.5.8).

Overview of Material Risks

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TOP RISKS	2018		2017	
	Impact	Probability	Impact	Probability
Increased costs or limitation to growth due to a changed competitive environment	↑ Very High	↑ Medium	High	Low
Changing regulatory requirements	High	↑ High	High	Medium
Impact of climate change on the business cases	High	↑ Medium	High	Low
Lack of state-of-the-art shop and service	High	Medium	High	Medium
Limited capacities at logistic service providers	High	↑ Medium	High	Low
Existing and new regulatory requirements regarding data privacy	↑ High	Medium	Medium	Medium
Cybersecurity threats	↑ High	↑ Medium	Medium	Low

In addition, we removed several risks from the top risk area due to reduced probability or impact:

- risk of strike
- risk from a lack of innovation capabilities
- risks from missed opportunities on improved forecast planning and alignment (categories and assortment)
- risks of payment default/external fraud
- risks from overall outages with customer impact (focus on technology)

All risks removed from the top risk area continue to be monitored closely in the overall RMS.

More information on the top risks are provided in the following.

Increased Costs or Limitation to Growth Due to a Changed Competitive Environment

Fashion, and in particular online fashion retail, is an increasingly competitive space with new players entering the market and existing brick-and-mortar retailers improving their e-commerce offerings. Future growth targets might be at risk as the overall market will be more fiercely contested.

The Zalando platform model is designed to connect all relevant groups of the fashion industry to be successful together. By focusing on the requirements of the fashion industry, we are able to create unique and fascinating fashion experiences for our customers and find specific solutions for brand partners. We offer customers in our 17 European markets locally tailored solutions and give fashion brands and retailers access to the European fashion market.

Our in-depth knowledge of local markets, combined with our platform model and ability to create exciting customer experiences are among our strongest competitive advantages.

Changing Regulatory Requirements

With business activities in various countries, risks can arise from changing regulatory requirements. Changes in the regulatory frameworks can necessitate amendments to processes and business cases entailing an increase in costs or reduction of sales. Potential risk scenarios may involve additional costs related to customs, product safety, working conditions, product offering, consumer protection and new packaging materials. The risk is driven by upcoming regulatory instruments such as the Digital Single Market initiative (DSM), the upcoming regulation on Platform-to-Business relationship (P2B) and the expected "New Deal for Consumers." Further, a discussion of amending the existing rules concerning the better enforcement and modernization of EU consumer protection rules as well as the modernization of the EU copyright rules are underway. Brexit and more restrictive environmental legislation, like the ban of single-use plastics, are also upcoming regulatory challenges.

To adequately monitor the multitude of regulatory changes, Zalando's Legal Team supports the various stakeholders with a regulatory watch process, which monitors regulatory changes through different channels (e.g. conferences and seminars, cooperation with external law firms, latest specialist literature) and initiates appropriate countermeasures together with the affected departments.

Environmental regulatory changes are monitored by the Corporate Responsibility Team, which rolled out Zalando's first environmental protection strategy. For more information on the strategy and measures, please see the Corporate Responsibility section of this report on page 8.

Impact of Climate Change on the Business Cases

Zalando's product selection, purchasing and sales forecasts are based on fashion industry seasonality and their respective climatic conditions. Extreme weather conditions like very long seasons (summer/winter) may cause a late or early start of the following season. Depending on this effect, both situations can have a significant impact on our goals. It can be assumed that due to climate change, extreme weather conditions are more likely to occur and thus influence our corporate goals.

We approach this weather-induced uncertainty with more flexible procurement and planning processes as well as expanding our product range in non-seasonal areas.

As Europe's largest fashion e-commerce company, we are taking responsibility for our environmental impact and are working to reduce our corporate carbon footprint with our climate protection strategy.

Lack of State-of-the-Art Shop and Service

To meet the rising and changing demand of lifestyle products and services and to realize market opportunities, regular innovative and appropriate adjustments to the shops are required. Neglecting the necessary adjustments or inadequate implementation of such measures can lead to customer migration away from Zalando, followed by significant revenue losses.

A significant overarching countermeasure is the establishment of the Digital Experience Team for the Fashion Store. The Digital Experience Team identifies and suggests relevant developments and adjustments (e.g., the evolution of the Fashion Store on-site experience) and coordinates their implementation, ensuring the continuous development of the shops.

Limited Capacities at Logistic Service Providers

Some of our key success factors in customer experience are speed, efficiency and the cost of processing goods. In this context, our logistics service providers (e.g. DHL and Hermes) are of particular importance. An increase in demand driven by the e-commerce sector in combination with the limited availability of logistics specialists and logistics capacities at our partners as well as stricter environmental regulations recently led to an increase in our logistics costs. We assume that this development will continue and that further cost increases are therefore likely.

We counter this risk through our long-standing business relationship with logistics providers and our logistics forecasting capabilities, which enables us to estimate and purchase required capacities in advance. We will also continue to cooperate with local last-mile delivery services to meet the convenience expectations of our customers.

Existing and New Regulatory Requirements Regarding Data Privacy

As an e-commerce company, Zalando needs to gather and process customer data including personally identifiable information (PII) data to complete orders, receive payments and effectively engage with customers. In this respect, Zalando is subject to numerous laws and regulations based on the confidentiality, integrity and availability of personal data including most prominently all aspects related to data protection and privacy (e.g. GDPR). GDPR as a prominent example became effective in May 2018 and introduced substantial penalties in case of violations.

To mitigate these risks, our Data Protection Officer and our Data & IT Law Team continuously monitor data protection requirements and developments, help write and implement corresponding documentation and processes and provide appropriate advice, expertise and training. This oversight also comprises close cooperation and alignment in particular with IT Security Teams, supporting the implementation of adequate technical and organizational measures to protect customer data. Beyond that, Zalando works with external partners and law firms to ensure that we correctly interpret the legal requirements and respond with appropriate action. Specific activities are targeted towards the upcoming EU ePrivacy regulation as we have completed an in-depth analysis of the changes anticipated in the first draft published in January 2017 and will continue to monitor releases of subsequent drafts. Together with relevant stakeholders, we identify the business cases that may be affected by the draft regulation, then assess, qualify and prioritize any measures that may be needed. These include further engagement with policymakers on the national and EU levels in close coordination with the Corporate Communications Team and the preparation and rollout of new innovative solutions and initiatives with external business partners.

Cybersecurity Threats

Cybersecurity risks from internal or external attacks or an internal control weakness may damage vital aspects of our customer-facing applications, fulfillment center IT systems, payment systems and internal IT systems. Such risks include but are not limited to outages due to distributed denial-of-service (DDoS) or ransomware attacks, data loss due to security breaches, degraded operations and inaccurate reporting due to integrity violations, or any combination thereof. Zalando, as Europe's largest e-commerce fashion retailer, offers a potential target due to its size, data pool and dependency on IT systems.

To counter the cybersecurity threats, Zalando is increasing security and compliance efforts with investments into new technologies and specialized in-house resources. Our IT security is continuously monitoring relevant areas and maintains appropriate processes to ensure the security of our data.

4.4.3 Illustration of Opportunities

Given the definition of an opportunity as a positive deviation from our business goals and our ambitious goals, we identified no material opportunities that could significantly overachieve our goals. Nevertheless, we identified opportunities that have the potential to affect our growth targets positively going forward:

Convenience Proposition

Over the past years, Zalando has made significant investments to expand its pan-European logistics network focused on getting closer to customers, providing an opportunity to reduce lead times further as well as preparing for further growth. Scalable and innovative logistics provide a source of new growth opportunities for Zalando, as 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 logistics partner for fashion brands and retailers.

We continue to invest in and innovate on our logistics solutions, as they are a crucial component behind Zalando's convenience proposition, enabling the company to meet the ever-growing convenience expectations. We have taken a step in this direction with our investments in the robotic startup Magazino, improvements like faster deliveries and increased delivery options and new services such as same day delivery and return on demand.

Strategic Partnerships

Fashion brands and retailers value Zalando as a preferred partner due to its fashion competency, technological capabilities and logistics network. Zalando helps partners connect with customers across Europe and helps them deal with some of the most complex and challenging issues they face across the fashion ecosystem. In these terms, Zalando enables brands and retailers within its Partner Program to sell their merchandise via the Zalando platform while maintaining full pricing freedom and control over their brand. Zalando's online brand shops 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 insight tools to offering holistic technology solutions tailored to partners' specific needs including Zalando Fulfillment Solutions (ZFS), stock integration technologies, marketing and advertising services (ZMS) and Connected Retail.

ZFS makes our logistics infrastructure and know-how available to partners. Through this service, brand partners can leverage Zalando's logistic capabilities to scale up their businesses internationally and provide the highest delivery standards for their customers across Europe. With our vision of expanding ZFS to further fulfillment centers, we see an opportunity to provide continued support for the growth of the Partner Program and to enhance the offerings for our partners.

Through Connected Retail, partners can take orders from Zalando customers themselves and ship the goods directly from their physical stores. The overarching goal is to help brands grow their online presence by helping them simplify their e-commerce operations both on and off the Zalando platform. As Zalando continues to innovate its partner offering, new and exciting opportunities emerge to create new fashion products and services contributing to the platform.

Markets and Segments

The European market is extremely heterogeneous with highly localized needs for fashion styles, payment methods and delivery options. We strive to meet our ambitious financial and quality goals by focusing on our core markets, strengthening our position in recently entered markets such as Ireland and the Czech Republic and assessing possibilities to expand into new ones.

We continue to offer our customers an increasingly large and courageous fashion assortment in our Men, Women, Children, Sport and Premium categories. We complement this approach with exclusive collections such as those by Karl Lagerfeld and new segments like Beauty.

With the introduction of Beauty, Zalando offers its customers even more inspiration and establishes itself as the platform for fashion and lifestyle in Europe. Zalando Beauty has launched over 120 brands. Our Zalando Beauty concept store in Berlin further strengthens our customer interaction.

Zalando adapts 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 as we keep 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, fulfil orders and leverage technology solutions across Europe. This approach provides a source of additional competitive advantages by generating 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.

Knowledge

Consumers tend to move towards those shops offering the best selection and the most 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 many different ways.

With its internally designed labels, Zalando offers products whose life cycle is managed under one umbrella from the design phase to the sale, placing Zalando in a position to not only react quickly to changing fashion trends but also to shape the fashion market in Europe actively.

To remain on 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.

With a base of more than 700 freelance stylists under the Zalon brand, Zalando has access to a vast pool of fashion experts, willing to build a business together with Zalando bringing in-depth fashion knowledge from different fashion markets. At Zalon, the stylists offer a highly personalized experience, as not one single box they put together resembles another. Adding additional services to our offerings, such as recently added subscription and messaging services, Zalando can leverage stylists' skills even more in the future, contributing to an inspiring and convenient customer journey.

4.5 Outlook

- Continued positive outlook for online fashion retail in Europe and Germany.
- Online fashion sales are expected to grow by 4.5%³⁶ in Europe and 4.9%³⁷ in Germany in 2019.
- Zalando aims to continue to grow significantly faster than the online fashion market, further expanding its market share.
- GMV growth of 20%–25% is forecast for 2019, revenue growth at the low end of this range; adjusted EBIT expected between EUR 175m and EUR 225m.

4.5.1 Future Overall Economic and Industry-Specific Situation

In 2019, European online fashion is expected to outpace the overall fashion market. A 4.5%³⁸ increase is forecasted for online fashion compared to the 1.0%³⁹ forecasted for the overall market. The German online fashion market has a similar projected growth of 4.9%⁴⁰, whereas the fashion market is expected to increase only by 0.4%⁴¹ in the upcoming 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 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

Zalando strives to be the starting point for fashion consumers in Europe. Pursuing a platform strategy centered around the Partner Program is one key lever to becoming the starting point, as it will allow for deeper relationships with both its customers and brand partners. This strategy is expected to drive continued market share gains, scale benefits, and ultimately after a transition period to drive an attractive financial profile. Management is convinced that this is the value-maximizing strategy for the company.

36) Euromonitor, Europe excl. Russia, Germany

37) ibid

38) ibid

39) ibid

40) ibid Euromonitor, Germany

41) ibid

4.5 OUTLOOK

The European online fashion market is expected to grow about 4.5% in 2019. Zalando forecasts GMV growth of 20% to 25% (fiscal year 2018: 21.1%) and revenue growth at the low end of this range in fiscal year 2019 (fiscal year 2018: 20.0%). We expect revenue growth in 2019 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. We expect both drivers to contribute in a balanced way.

Zalando expects to continue to grow profitably. The company expects adjusted EBIT of EUR 175.0m to EUR 225.0m (EBIT EUR 110.0m to EUR 160.0m) (fiscal year 2018: adjusted EBIT of EUR 173.4m; EBIT of EUR 120.2m).

The company will continue to invest in logistics and technology and plans capital expenditure of around EUR 300m in 2019 (2018: EUR 278.4m).

4.5.3 Overall Assessment by the Management Board of ZALANDO SE

Overall, the Management Board views the developments in fiscal year 2018 and the economic position of Zalando as positive. 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 2019, 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.

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 HGB [“Handelsgesetzbuch”: 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 shop, HR management, IT, finance management and risk management.

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

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

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

4.6.2 Economic Situation of ZALANDO SE

The result of ZALANDO SE’s operations are presented in the following condensed income statement and are broken down by the type of expenses within the company. It shows a strong revenue growth and solid profitability, while we continued to further our investments in customer experience, brand partner proposition, technology and operations infrastructure.

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

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IN EUR M	Jan 1 – Dec 31, 2018	As % of sales	Jan 1 – 31 Dec, 2017	As % of sales	Change in percent- age points
Revenue	5,338.5	100.0%	4,479.6	100.0%	0.0pp
Own work capitalized	34.2	0.6%	36.5	0.8%	-0.2pp
Other operating income	126.8	2.4%	48.9	1.1%	1.3pp
Cost of materials	-3,058.4	-57.3%	-2,533.9	-56.6%	-0.7pp
Gross profit	2,441.1	45.7%	2,031.1	45.3%	0.4pp
Personnel expenses	-334.5	-6.3%	-278.8	-6.2%	0.0pp
Amortization and depreciation	-43.6	-0.8%	-37.4	-0.8%	-0.0pp
Other operating expenses	-1,930.1	-36.2%	-1,545.6	-34.5%	-1.7pp
Operating result	132.8	2.5%	169.4	3.8%	-1.3pp
Financial result	-46.7	-0.9%	0.2	-0.0%	-0.9pp
Results from ordinary business activities	86.1	1.6%	169.6	3.8%	-2.2pp
Income taxes	-52.8	-1.0%	-64.4	-1.5%	0.4pp
Net income for the year	33.3	0.6%	105.1	2.3%	-1.7pp
Operating result margin	2.5%		3.8%		-1.3pp

In the reporting period Zalando increased its revenue by EUR 858.8m to EUR 5,338.5m. The 19.2% increase in revenue is the result of a larger customer base and therefore a higher number of orders (28.4%). Zalando continued its positive development in all markets. The considerable rise in these revenue drivers was enabled by our continued focus on investing in the consumer and brand proposition as well as in our technology and operations infrastructure.

In the current fiscal year, the DACH countries generated a little less than half of the total revenue. At the same time, revenue recorded in the other European countries climbed significantly, contributing substantially to the overall growth. The increase also includes the launch of the Zalando shop in Ireland and Czech Republic in summer 2018.

Revenue of ZALANDO SE by Geographical Region

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IN EUR M.	2018		2017		Change	
DACH*	2,604.5	48.8%	2,350.1	52.5%	254.4	10.8%
Rest of Europe**	2,734.0	51.2%	2,129,5	47.5%	604.5	28.4%
Total	5,338.5	100.0%	4,479,6	100.0%	858.9	19.2%

* In both fiscal 2018 and 2017, DACH countries comprises Germany, Austria and Switzerland.

** In fiscal 2018, the Rest of Europe comprises the Netherlands, France, Italy, the United Kingdom, Poland, Belgium, Sweden, Finland, Denmark, Spain, Norway, Luxembourg. In addition to 2017 Ireland and the Czech Republic were launched.

Other operating income mainly results from Group recharges and income from foreign currency translation.

The cost of materials rose by EUR 524.5m to EUR 3,058.4m, 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 57.3% can be primarily attributed to a higher average discount rate in fiscal year 2018. Overall, the company generated a gross profit of EUR 2,441.1m in fiscal year 2018 (prior year: EUR 2,031.1m).

Personnel expenses rose by EUR 55.8m to EUR 334.5m, in line with the rise in the number of employees. In 2018, the average headcount increased by 286 on the prior year from 4,062 to 4,348 employees.

Amortization and depreciation increased in comparison to prior year because of further investments in capital.

Other operating expenses primarily include marketing expenses as well as fulfillment costs. The cost ratio as a percentage of revenue (36.2%) is slightly above the previous year, due to an increase in the fulfillment costs. The increase is primarily attributable to higher logistic costs, as Zalando is building up a diverse logistics network and continues to invest in the customer and brand proposition. The improvement in the marketing costs due to efficiency gains within performance marketing could not offset this effect.

The operating result for the year of EUR 132.8m decreased by 1.3 percentage points mainly due to higher fulfillment costs and a lower gross profit margin which could not be offset by improved marketing costs.

The financial result comprises impairments of financial investments of EUR 49.4m (prior year: EUR 0.0) as well as income and expenses from profit transfers of EUR 4.6m (prior year: EUR 6.6m), mainly from the Zalando outlets and Zalando Marketing Solutions 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 a solidarity surcharge. As in the prior year, the statutory corporate income tax rate, including solidarity surcharge, for the assessment period 2018 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, 2018	Jan 1 – Dec 31, 2017
Deferred taxes	8.4	-21.0
Current taxes in Germany	-61.2	-43.4
Total	-52.8	-64.4

In fiscal year 2018, deferred tax liabilities of EUR 8.1m were recognized, mainly due to the capitalization of internally generated 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, 2018		Dec 31, 2017		Change
Non-current assets	656.7	20.0%	620.3	21.2%	36.4
Current assets	2,622.6	79.7%	2,292.8	78.3%	329.8
Prepaid expenses	9.1	0.3%	14.3	0.5%	-5.2
Total assets	3,288.4	100.00%	2,927.4	100.0%	361.0

Equity and Liabilities

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IN EUR M	Dec 31, 2018		Dec 31, 2017		Change
Equity	1,568.8	47.7%	1,569.0	53.6%	-0.2
Special items for government grants	0.0	0.0%	0.2	0.0%	-0.2
Provisions	381.0	11.6%	250.9	8.6%	130.1
Liabilities	1,323.8	40.3%	1,087.1	37.1%	236.7
Deferred income	6.7	0.2%	3.7	0.1%	2.9
Deferred tax liabilities	8.1	0.2%	16.5	0.6%	-8.4
Total equity and liabilities	3,288.4	100.0%	2,927.4	100.0%	361.0

The total assets of ZALANDO SE rose by around 12.7% as a result of a 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 2018, capital expenditures focused on intangible assets (EUR 43.6m) and financial assets (EUR 100.6m). Investing activities were financed exclusively from the group's own funds.

In fiscal year 2018, inventories solely comprised merchandise used in the core operational business of ZALANDO SE.

As of December 31, 2018, ZALANDO SE's trade receivables were up from EUR 387.2 m to EUR 544.4 m.

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 the Zalando group basically reflects the financial development of ZALANDO SE. Furthermore, ZALANDO SE is responsible for the cash management of the Zalando group.

In fiscal year 2018, Zalando generated a positive cash flow from operating activities of EUR 206.4m (prior year: EUR 200.3m). Despite a decrease in income (which decreased from EUR 105.1m in the prior year to EUR 33.3m in the reporting year), cash flow from operating activities increased largely due to a higher cash inflow from working capital (prior year: cash outflow) and higher non-cash expenses such as depreciation and expenses from share-based payments.

The cash flow from investing activities in fiscal year 2018 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 at financial institutions and in money market funds due within three months.

The equity ratio stood at 47.7% (prior year: 53.5%).

Provisions and liabilities increased by EUR 366.8m to EUR 1,704.8m in line with the expansion of business. As of December 31, 2018, this figure mainly pertains to provisions for product return claims, outstanding invoices for fulfillment and marketing expenses and trade payables.

Under reverse factoring agreements, suppliers' claims against Zalando totaling EUR 374.6m were transferred to various factors as of December 31, 2018 (December 31, 2017: EUR 328.9m). These are recognized in the statement of financial position under trade payables and similar liabilities.

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 is provided in the risk and opportunity report of the group.

4.6.4 Outlook

The statements made on market trends 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 25, 2019

Robert Gentz David Schneider Rubin Ritter

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 practiced by Zalando, involves responsible management and control of the company geared towards long-term goals. ZALANDO SE's Management Board and Supervisory Board value good corporate governance very highly and align their approach to the recommendations set out in the German Corporate Governance Code. In the following, the Management Board and Supervisory Board submit the corporate governance report together with the statement on corporate governance pursuant to Sections 289f and 315d HGB (German Commercial Code), as the content of the two is closely linked. In accordance with Sections 289f and 315d HGB, the statement on corporate governance forms part of the management report.¹⁶

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 2018. The declaration of conformity from December 2018 is made available on the company's website.



zln.do/en-governance

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 2017 except for the deviations stated and explained below under 1. to 5., acted in conformity with the recommendations of the Government Commission German Corporate Governance Code in its version of 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").

Due to the introduction of the new compensation system for the Management Board effective as of December 1, 2018, 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 except for the deviations stated and explained below under 1. to 3.:

- **1. 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 policies. 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.
- **2. 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.
- **3. 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.

¹⁶⁾ The statements on corporate governance in accordance with Sections 289f and 315d HGB are an unaudited part of the combined management report.

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 competencies 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, which since 2010 consists 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 itself, paying attention particularly to a variety of professional experience and expertise and 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.

— **4. 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 previous compensation system for the Management Board, which was valid until November 30, 2018, and which had been determined before the initial public offering and thus before the application of the Code's recommendations, provided for a share option scheme as the variable component of the Management Board compensation. This share option scheme did not contain an explicit rule requiring the consideration of negative developments. It included 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 were taken into account solely 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, as a precautionary measure, a deviation from No. 4.2.3 Paragraph 2 Sentence 4 for the past. 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 provided for a cap in relation to the number of shares that will be allocated upon the exercise. No cap was foreseen on the monetary value of the share options upon the exercise to avoid an interruption of the alignment of interest between the shareholders and the members of the Management Board, and to achieve adequate participation in the economic risks but also chances of the company by the members of the Management Board. As no cap in relation to the variable component was determined, consequently also no cap in relation to the overall amount of the compensation was determined, so that a deviation from No. 4.2.3 Paragraph 2 Sentence 6 is declared for the past. Lastly, it could not be excluded that the agreed performance targets did not comply with the requirements laid down by the Code regarding demanding parameters. Therefore, we also declare, as a precautionary measure, a deviation from No. 4.2.3 Paragraph 2 Sentence 7 for the past.

6.1 CORPORATE GOVERNANCE REPORT

The new compensation system for the members of the Management Board which came into effect on December 1, 2018, is in line with all recommendations under No. 4.2.3 of the Code. Consequently, no deviation from No. 4.2.3 is declared for the future.

- **5. 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 were not complied with because the general meeting of ZALANDO SE on July 11, 2014, resolved 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 will 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. Thus, the company abstained from including in the compensation report the disclosures recommended under No. 4.2.5 Paragraph 3 of the Code in individualized form.

In the course of the introduction of the new compensation system for the members of the Management Board, the company decided to disclose the compensation of the members of the Management Board by name in line with the Code's recommendation in the future, starting with the annual and consolidated financial statements of ZALANDO SE to be prepared for fiscal year 2018.

6.1.2 Corporate Governance

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

We aim for a sustainable corporate governance 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 in these activities. Detailed information on Zalando's corporate responsibility strategy and activities can be found in the Corporate Responsibility section on page 8.



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Our 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 the law and our policies, including, but not limited to, anti-corruption practices, antitrust regulations, data protection and insider compliance, and tax provisions. The details are set out in internal guidelines and policies. The Code of Ethics is structured around three sections: winning together, act like an owner and speak-up. Fostering a speak-up culture so that employees actively participate and raise concerns or report compliance breaches is an essential part of Zalando's culture. This expectation is complemented by the promise to protect all those who report an incident in good faith from negative consequences.

GRI 103-1/-2/-3 MA
Anti-Corruption



zln.do/en-principles

Our Code of Conduct for business partners, which is published on the corporate website, sets the minimum standards by which business partners who produce or supply goods and services for us must abide. Every business partner shall acknowledge these standards to assure a safe and fair working environment and to commit to the compliance with applicable laws and regulations regarding the protection and preservation of the environment. The Code of Conduct 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.

Zalando maintains a group-wide Compliance & Business Ethics Team to monitor, manage, document and report on compliance risks deriving from breaches of the law, group policies and ethical standards in business. Zalando's compliance management system encompasses policy management, a help desk function, whistleblowing management, business partner due diligence, compliance-related trainings, monitoring of certain types of expenses and a regulatory watch process to monitor changes in law. The Compliance & Business Ethics Team also initiates investigations should a compliance infringement occur.

One focus in 2018 was on mandatory compliance training courses, which are conducted as face-to-face training courses for leads and generally as e-learning courses for employees without leadership responsibility but with a professional email address. Employees at sites outside Berlin also receive a classroom training format instead of e-learning to allow for sufficient outreach and personal contact with the central Compliance Team.

All employees in scope are trained on compliance at Zalando, our Code of Ethics, Code of Conduct and group policies, including anti-corruption related policies, e.g. our Group Policy Benefits & Gifts. In the reporting period, 50 compliance basics face-to-face training courses were carried out (2017: 34 training courses), among them 9 outside Berlin, and 5,113 employees completed the compliance basics e-learning courses (2017: 3,832), among them 2,321 employees of ZALANDO SE. Each mandatory training course is followed by mandatory refreshers every other year. Employees receive an automatic reminder to fulfill their training obligations. If an employee does not fulfil his or her obligations, the lead will be informed and reminded repeatedly until the training is completed.



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GRI 205-2

The Code of Ethics also stipulates the obligation for all employees to comply with our 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 focus on requirements for data privacy to be complied with in all business divisions. Zalando is regulated under European and national data protection regulations, and we closely monitor the changing legal requirements.

GRI 103-1/-2/-3 MA
Customer Privacy

Various communication channels are available to facilitate the reporting of presumed compliance infringements to the Compliance & Business Ethics Team. They can inter alia be reported – in various languages – via whistleblowing tool from a third-party provider that was introduced in

the reporting period, on an anonymous basis if preferred. The anonymous and protected reporting channel is available to employees as well as third parties. A compliance panel manages serious cases of (potential) compliance violations. 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.

The Risk Management Team creates transparency on risks and opportunities for decision makers, fosters the risk and opportunity culture and creates a common understanding on risks and opportunities throughout the company. The risk and opportunity management approach is designed to support the decision-making process with consistent, comparable and transparent information via a standardized process to identify, assess, monitor, document and report on strategic, operational and financial risks and opportunities as well as on compliance risks. A system of internal controls over financial reporting is in place to support the accuracy of bookkeeping and accounting and the reliability of financial reporting, which comprises preventive, monitoring and detection measures. Further information can be found in the Risk and Opportunity Report on page 110.

GRI 102-11

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.

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 it 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 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 week. 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 other 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, and material transactions require Supervisory Board approval.

Composition of the Management Board

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.

The Supervisory Board has set the female representation target in accordance with Section 111 (5) AktG accordingly (please see table 25 on page 57). 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 particular attention to a variety of professional experience and expertise, aiming for an appropriate consideration of women and internationality. The Supervisory Board will regularly reconsider its 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.



zln.do/en-management-board

Members of the Supervisory Board in Fiscal Year 2018

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 Dominik Asam

 Anthony Brew (member since May 23, 2018)

 Lothar Lanz (chairperson)

 Jørgen Madsen Lindemann

 Anders Holch Povlsen (deputy chairperson)*

 Shanna Prevé

 Dylan Ross (member until January 15, 2018)

 Alexander Samwer

 Konrad Schäfers

 Beate Siert

*) Considered non independent member 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. According to Section 100 (5) AktG, 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 competencies 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 Supervisory Board has set the target in accordance with Section 111 (5) AktG accordingly (please see table 25 on page 57). 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 2018, please refer to table 19 on page 46. 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 2018 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, reviews and discusses the financial reports, approves the non-audit services by the auditor, monitors the effectiveness of the internal risk management and control systems and the internal audit system and handles questions regarding compliance and the monitoring of the audit.

The audit committee also discusses the audit reports with the auditor as well as its findings and provides recommendations in this respect to the Supervisory Board.

Members of the Audit Committee → 53

Dominik Asam (chairperson)

Lothar Lanz

Jørgen Madsen Lindemann

Konrad Schäfers

The chairperson of the audit committee, Dominik Asam, has the requisite expertise in the area of accounting or auditing pursuant to Section 100 (5) AktG. Dominik Asam is 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 → 54

Jørgen Madsen Lindemann (chairperson)

Shanna Prevé

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 → 55

Lothar Lanz (chairperson)

Jørgen Madsen Lindemann

Anders Holch Povlsen

6.1.4 Target of Female Representation on the Supervisory Board, the Management Board and on Management Levels below the Management Board According to Sections 76 (4), 111 (5) AktG

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. For further details on Zalando's diversity and inclusion strategy, please refer to the do.GROW chapter on page 14.



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The target figures for the representation of women on the Supervisory Board, the Management Board and on the two management levels below the Management Board according to Sections 76 (4), 111 (5) AktG have been determined as follows:

Target of Female Representation

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	Target figure	Valid until	Status as of December 31, 2018
Supervisory Board	22%	June 30, 2022	22%
Management Board	0%	June 30, 2022	0%
First management level below the Management Board	25%	June 30, 2022	11%
Second management level below the Management Board	30%	June 30, 2022	16%

6.1.5 Takeover Law Disclosures Pursuant to Sections 289a (1), 315a (1) HGB and Explanatory Report¹⁷

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 2,795,235 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 2018, Kinnevik AB 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 shareholdings in the company can be found in section 1.5 The Zalando Share – 2018 in Review on page 76.

¹⁷ Takeover law disclosures pursuant to Sections 289a (1), 315a (1) HGB are part of the combined management report and also form part of the corporate governance report with the declaration of conformity.

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 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) 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 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, the aforesaid 20% limit includes (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 9,617,500 by issuing up to 9,617,500 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 4,750,499 by issuing up to 4,750,499 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 until June 1, 2020, by the company or any subordinate group company of the company pursuant to the authorization on which a resolution was passed by the general meeting on June 2, 2015, under agenda item 10 lit. a) 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 Management Board Members or Employees in the Event of a Takeover Bid

The Stock Option Program SOP 2013 and the Long Term Incentive LTI 2018 allow for option rights held by the Management Board to be supplemented in the case of a change of control. The Supervisory Board and the Management Board are both entitled to request the cancelation of the vested outstanding options in exchange for payment by the company. LTI 2018 options not yet vested at the time of a change in control may be replaced at the discretion of the Supervisory Board by an economically equivalent new program.

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.

6.1.6 Remuneration Report¹⁸

The Remuneration Report describes the principal features of the remuneration system as well as the level of remuneration for the individual members of the Management Board and the Supervisory Board of ZALANDO SE for fiscal year 2018 with a focus on the new remuneration system for the members of the Management Board which came into effect on December 1, 2018.

Remuneration of the Members of the Management Board

Principles of the Remuneration System

The remuneration system for the Management Board has a simple and transparent structure. It consists, besides customary fringe benefits, of two components only: an annual fixed base salary and a share-based variable long-term incentive. For the most part, the remuneration is allocated to the long-term incentive, resulting in an entrepreneurial risk and return profile of the remuneration system, which is closely aligned with shareholder interests.

None of the remuneration components includes any discretionary benefits. The company does not provide any company pension entitlements to the members of the Management Board.

Non-Performance-Based Remuneration

Fixed Remuneration

Under the new remuneration system effective since December 1, 2018, the gross annual fixed base salary amounts to EUR 65,000 per member of the Management Board but will at least equal the statutory annual minimum salary required in the respective year for an exemption from statutory health insurance and is paid in monthly installments. The preceding remuneration system (effective until November 30, 2018) provided for a gross annual fixed base salary amounting to EUR 200,000 per member of the Management Board.

Fringe Benefits

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 27,180 in fiscal year 2018 (prior year: EUR 40,050). 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.

Performance-Based Remuneration (Long-Term Incentives)

New Long Term Incentive 2018 (LTI 2018)

Each member of the Management Board was granted 1,750,000 options for the five-year contract term under the LTI 2018, which forms part of the new remuneration system effective since December 1, 2018. Each option relates to one share in the company and has an exercise price of EUR 47.44. The exercise price was determined on the basis of the current share price as per the date of the execution of the new service agreements implementing the new remuneration system in August 2018 and then increased by 5%.

¹⁸) 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.

Vesting Scheme

The options vest in quarterly tranches over a five-year period. As a rule, in all cases of pre-mature termination of the office as a member of the Management Board, options which have not yet vested on the date of such termination will cease to vest and be forfeited without compensation. In certain situations of termination qualifying as bad leaver events, even vested and unexercised options of the member of the Management Board concerned will be forfeited without compensation.

However, by way of an exception from the above, if a member of the Management Board is revoked from office by the company without good cause for termination within the meaning of Section 626 BGB (German Civil Code) and without qualifying as a bad leaver, such member of the Management Board retains, in addition to the options which have vested until such termination, also those options which would have vested during a period of two years thereafter.

Performance Criterion

The performance criterion measures the compound annual growth rate (CAGR) of Zalando group's business during the relevant performance period as the most relevant performance parameter under the company's long-term strategy. The percentage of vested options of a beneficiary which can be exercised depends on the extent to which a targeted CAGR of at least 15% has been achieved during the performance period. This is a challenging criterion as it requires an outperformance of the expected continued strong growth of the European online fashion retail by approximately a factor of 2. The online European fashion retail industry is projected to grow at a CAGR of 7%¹⁹ during a five-year period.

The company's consolidated revenue is used as the relevant parameter for the growth of the company's business. However, should the share from the company's Partner Program increase to a 14% share in consolidated revenue, adjusted for the grossed up Partner Program merchandise volume (i.e., not including Partner Program commission only as in revenue, but treating the Partner Program as wholesale, thus grossed up to show 100% of the Partner Program merchandise volume), then these adjusted consolidated revenues are to be used as the relevant parameter for the growth of the company's business for the full relevant performance period as this number then more adequately reflects the growth of the company's overall business and ensures the Management Board is agnostic in its steering between the company's wholesale and its marketplace business.

19) CAGR (2018-2023);
Source: Euromonitor, fixed exchanges rates. Data for Europe (excluding Russia) includes apparel and footwear, bags/luggage, jewelry and watches. All figures incl. of sales tax.

100% of the vested options can be exercised if the CAGR equals or exceeds 15%. Otherwise, depending on the extent of the shortfall of the actual CAGR from such target CAGR, the percentage of the relevant vested options which can be exercised decreases by way of a step function with each 0.5ppt of CAGR below 15% resulting in a 10% payout reduction, the last step being (< 11.0% and ≥ 10.0%); at a CAGR below 10%, payout is zero:

Performance Criterion

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CAGR	Exercisable options (in % of total number of vested options)
CAGR ≥ 15.0%	100%
< 15.0% and ≥ 14.5%	90%
< 14.5% and ≥ 14.0%	80%
etc.	
< 11.5% and ≥ 11.0%	20%
< 11.0% and ≥ 10.0%	10%
< 10.0%	0%

Waiting Period and Performance Period

The options can only be exercised after the expiry of a waiting period of 4 years commencing on the effective date December 1, 2018, for 57% of the options and 4.75 years for the remaining 43% of the options. The performance period relevant for the achievement of the performance criterion equals the waiting period (i.e. 4 and 4.75 years) for the respective options.

Settlement Value and Cap

The beneficiary is entitled to the amount by which the share price as per the exercise date exceeds the exercise price of EUR 47.44. This amount is limited to a maximum of EUR 97.14 per option. In order to achieve this maximum amount, the company's share price will need to reach EUR 144.58.

Claims for Restitution

The service contracts of the Management Board members do not include provisions on claims for restitution on the part of the company against the Management Board members for variable compensation paid, e.g. clawback clauses, as the LTI 2018 options are only exercisable once they are definitively vested and the waiting period of 4 to 4.75 years has expired. Until then, they also reflect negative value risks. An additional clawback provision is therefore not required. This does not affect the applicable legal situation regarding any claims for damages on the part of the company against the Management Board members in the event of culpable breaches of duty (such as according to Section 93 (2) AktG (German Stock Corporation Act)).

The number of options outstanding of LTI 2018 developed as follows in the reporting period:

LTI 2018

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	Robert Gentz		David Schneider		Rubin Ritter	
	Number of options	Weighted average exercise price (in EUR)	Number of options	Weighted average exercise price (in EUR)	Number of options	Weighted average exercise price (in EUR)
Outstanding as of Jan 1, 2018	0	–	0	–	0	–
Granted during the year*	1,750,000	47.44	1,750,000	47.44	1,750,000	47.44
Forfeited during the year	0	–	0	–	0	–
Exercised during the year	0	–	0	–	0	–
Outstanding as of Dec 31, 2018	1,750,000	47.44	1,750,000	47.44	1,750,000	47.44
Exercisable as of Dec 31, 2018	–	47.44	–	47.44	–	47.44
Weighted average remaining contractual life of options outstanding (in years)						
As of Dec 31, 2017	–		–		–	
As of Dec 31, 2018	7.8		7.8		7.8	
Weighted average share price (in EUR) for options exercised in						
2017	–		–		–	
2018	–		–		–	

*) Comprises all options granted under the LTI 2018 for the five-year contract term.

Stock Option Program 2011 (SOP 2011) and Stock Option Program 2013 (SOP 2013)

Before the introduction of the LTI 2018, the members of the Management Board participated in the Stock Option Programs SOP 2011 and SOP 2013. The term and vesting periods of the SOP 2011 and SOP 2013 programs expired in October 2018 and in November 2018, respectively.

The options of SOP 2011 were granted to the members of the Management Board in fiscal year 2011. SOP 2011 consists of options that entitle each member of the Management Board to acquire 1,028,500 new shares in the company. Each option entitles the beneficiary to acquire one share. The exercise price is EUR 5.65 per option. The options granted to the beneficiaries vested in monthly tranches over a seven-year period and became exercisable upon vesting. The last tranche of the SOP 2011 vested in October 2018. The options can be exercised for an unlimited period of time but only within defined exercise windows, namely within two weeks following the publication of a quarterly financial report, a half-year report or the annual financial statements. The beneficiaries have no claim to cash payment resulting from the SOP 2011.

6.1 CORPORATE GOVERNANCE REPORT

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

SOP 2011

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	Robert Gentz		David Schneider		Rubin Ritter	
	Number of options	Weighted average exercise price (in EUR)	Number of options	Weighted average exercise price (in EUR)	Number of options	Weighted average exercise price (in EUR)
Outstanding as of Jan 1, 2017	1,028,500	5.65	1,028,500	5.65	486,200	5.65
Granted during the year	0	–	0	–	0	–
Forfeited during the year	0	–	0	–	0	–
Exercised during the year	196,350	5.65	196,350	5.65	299,200	5.65
Outstanding as of Dec 31, 2017	832,150	5.65	832,150	5.65	187,000	5.65
Exercisable as of Dec 31, 2017	719,950	5.65	719,950	5.65	74,800	5.65
Outstanding as of Jan 1, 2018	832,150	5.65	832,150	5.65	187,000	5.65
Granted during the year	0	–	0	–	0	–
Forfeited during the year	0	–	0	–	0	–
Exercised during the year	196,350	5.65	196,350	5.65	112,200	5.65
Outstanding as of Dec 31, 2018	635,800	5.65	635,800	5.65	74,800	5.65
Exercisable as of Dec 31, 2018	635,800	5.65	635,800	5.65	74,800	5.65
Weighted average remaining contractual life of options outstanding (in years)						
As of Dec 31, 2017	Unlimited		Unlimited		Unlimited	
As of Dec 31, 2018	Unlimited		Unlimited		Unlimited	
Weighted average share price (in EUR) for options exercised in						
2017	41.51		41.51		41.35	
2018	44.87		44.87		43.22	

The options of SOP 2013 were granted to the members of the Management Board in fiscal year 2013. SOP 2013 consists of options that entitle each member of the Management Board to acquire 3,272,500 new shares in the company. Each option entitles the beneficiaries to acquire one share. The exercise price is EUR 15.63 per option. The beneficiaries can alternatively request a reduction of the exercise price from EUR 15.63 to EUR 1.00 for all or some of the options already vested. In this case, the number of options is reduced so that it leaves the beneficiary at the time of the request neither better nor worse off economically.

The options granted to the beneficiaries vested in monthly tranches over a five-year period. The last tranche of SOP 2013 vested in November 2018. The exercise of the options require the expiry of a four-year waiting period and the achievement of the performance criterion which was determined in a compound annual revenue growth rate during the four-year waiting period. The waiting period ended in December 2017 and the performance criterion was achieved at the end of this period. The options can only be exercised in defined exercise windows, namely within three weeks of the publication of a quarterly financial report, a half-year report or the annual financial statements and within five years of the expiration of the waiting period.

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

6.1 CORPORATE GOVERNANCE REPORT

SOP 2013

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	Robert Gentz		David Schneider		Rubin Ritter	
	Number of options	Weighted average exercise price (in EUR)	Number of options	Weighted average exercise price (in EUR)	Number of options	Weighted average exercise price (in EUR)
Outstanding as of Jan 1, 2017	1,309,000	15.63	1,309,000	15.63	3,272,500	15.63
Granted during the year	0	–	0	–	0	–
Forfeited during the year	0	–	0	–	0	–
Exercised during the year	0	–	0	–	0	–
Transferred during the year*	669,460	15.63	669,460	15.63	0	–
Outstanding as of Dec 31, 2017	639,540	15.63	639,540	15.63	3,272,500	15.63
Exercisable as of Dec 31, 2017	639,540	15.63	639,540	15.63	2,603,040	15.63
Outstanding as of Jan 1, 2018	639,540	15.63	639,540	15.63	3,272,500	15.63
Granted during the year	0	–	0	–	0	–
Forfeited during the year	0	–	0	–	0	–
Exercised during the year	0	–	0	–	200,000	1.00
Transferred during the year*	0	–	0	–	0	–
Outstanding as of Dec 31, 2018	639,540	15.63	639,540	15.63	2,900,771**	14.77
Exercisable as of Dec 31, 2018	639,540	15.63	639,540	15.63	2,900,771**	14.77
Weighted average remaining contractual life of options outstanding (in years)						
As of Dec 31, 2017	5.0		5.0		5.0	
As of Dec 31, 2018	4.0		4.0		4.0	
Weighted average share price (in EUR) for options exercised in						
2017	–		–		–	
2018	–		–		45.95	

*) Transfer of options to companies wholly owned by Management Board member.

**) For 542,300 options, the contractually agreed provision to reduce the exercise price to EUR 1.00 has been used. This has reduced the number of these options to 370,571, of which 200,000 have been exercised at EUR 1.00.

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, with the exception of certain limited private investment activities provided that the entities neither are active in the core business area of the Zalando group nor have a significant business relationship with the Zalando group.

Moreover, the service contracts contain a non-competition clause that prohibits members of the Management Board from working for companies in direct or indirect competition with the Zalando group or that are affiliated with competitors of this kind.

The conditions stipulated in the new service contracts between the members of the Management Board and the company entered into force on December 1, 2018. These contracts are valid until November 30, 2023. 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 or their related parties and the company or their subsidiaries.

Procedure for Determining the New Remuneration System for the Members of the Management Board

The Supervisory Board has set up a remuneration committee consisting of four members, all of which are considered independent within the meaning of the German Corporate Governance Code (please see page 48). The remuneration committee regularly reviews the performance of the Management Board members as well as all aspects of the remuneration and employment terms for the Management Board.

The last such review was performed in several meetings in 2017 and 2018 in the course of the design and introduction of the new remuneration system for the Management Board members. In this process, the remuneration committee was supported by independent external advisors. In preparing the remuneration system, the Supervisory Board and its remuneration committee considered various relevant perspectives, such as the company's strategic (growth) ambitions, the required leadership capabilities and competencies, the internal pay relativities and the alignment of the incentive structures. It also considered an external benchmarking both within the German market, including more or less similar sized (M)DAX companies from various industries, and with an international sector specific group, including more or less similar-sized technology-driven companies located in Europe and US, as well as the recommendations of the German Corporate Governance Code. For benchmarking purposes, the following companies were included:

External Benchmarking

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German cross industry	International sector specific (technology-driven)
AXEL SPRINGER	AMADEUS IT GROUP
DEUTSCHE BÖRSE	ASOS
DÜRR GROUP	CIMPRESS
FRAPORT	CNOVA
FUCHS PETROLUB	CRITEO
GEA GROUP	EBAY
HUGO BOSS	EXPEDIA
INFINEON TECHNOLOGIES	HSN
K+S	KLARNA BANK
KION GROUP	LIBERTY INTERACTIVE
KRONES	NETFLIX
MTU AERO ENGINES	OCADO GROUP
PROSIEBENSAT.1 MEDIA	PRICELINE GROUP
RTL GROUP	UNITED INTERNET
STADA ARZNEIMITTEL	WAYFAIR
SYMRISE	YAHOO!
	YOOX NET-A-PORTER GROUP

The remuneration committee proposed the new structure, amounts and terms to the Supervisory Board as a whole, which discussed and approved them in principle and decided to propose the new remuneration system to the annual general meeting for approval in May 2018. The annual general meeting approved the proposed new remuneration system. Besides positive feedback regarding the proposed changes to the remuneration system, some investors also raised concerns about certain aspects of the new system. The Supervisory Board took these criticisms seriously and discussed changes to the system after the annual general meeting, both internally and with the members of the Management Board, and agreed on some changes: the maximum cap of the options of the Long Term Incentive 2018 was lowered by 5% and a larger part of the options was subjected to a longer waiting period (43% vs. 20%).

The Supervisory Board continues to believe that the entrepreneurial risk and return profile of the proposed remuneration system best fits the needs of Zalando as a high-growth, founder-led company. The recent share price development in the second half of fiscal year 2018 underlines the high risk structure of the program that forms the core of the entrepreneurial structure. The Supervisory Board decided not to further change the proposed performance criterion because growth is the

strategic focus of the company. It is furthermore convinced that the target of 15% CAGR is sufficiently challenging.

The new service agreements that implemented the new remuneration system were concluded in August 2018 for a five-year term commencing on December 1, 2018.

Amount of Compensation for 2018

The tables below show the Management Board compensation in accordance with the recommendations of the German Corporate Governance Code (hereinafter "Code") and the requirements of Sections 314 and 315 HGB as specified in the German Accounting Standard 17 (hereinafter "GAS 17").

The Code recommends disclosing the value of benefits granted during the year under review as well as the benefits received, that is, the amounts disbursed during the year under review. In addition, it requires the maximum and minimum compensation amounts achievable for the variable compensation elements granted. The Code provides specific examples for the recommended presentation of the compensation based on reference tables which have been used below.

GAS 17 requires the disclosure of benefits split into performance-related and non-performance-related components with long-term incentives separately disclosed.

Under GAS 17, the pension cost, i.e. the service cost in accordance with IAS 19, does not have to be included in total compensation as recommended under the Code. The company does not provide any company pension entitlements to the members of the Management Board.

6.1 CORPORATE GOVERNANCE REPORT

Robert Gentz
Member of the Management Board

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IN EUR	Benefits granted (Code)			Benefits received (Code)			Benefits (GAS 17)	
	2018	2018 (min)	2018 (max)	2017	2018	2017	2018	2017
Non-performance-based remuneration								
Fixed compensation	188,750	188,750	188,750	183,065	188,750	183,065	188,750	183,065
Fringe benefits	5,956	5,956	5,956	11,947	5,956	11,947	5,956	11,947
Total	194,706	194,706	194,706	195,012	194,706	195,012	194,706	195,012
Performance-based remuneration								
Short-term incentives (non-stock-based)								
One-year variable compensation	-	-	-	-	-	-	-	-
Long-term incentives (stock-based)								
Multi-year variable compensation								
SOP 2011 (2011–2018)	-	-	-	-	14,741,958*	-	-	-
SOP 2013 (2013–2018)	-	-	-	-	-	11,292,445**	-	-
LTI 2018 (2018–2023)	19,151,015***	-	170,000,075***	-	-	-	19,151,015	-
Total	19,151,015	-	170,000,075	-	14,741,958	11,292,445	19,151,015	-
Pension expense	-	-	-	-	-	-	n.a.	n.a.
Total	19,345,721	194,706	170,194,781	195,012	14,936,664	11,487,457	19,345,721	195,012

*¹⁾ The receipt of EUR 14,741,958 relates to the exercise of 392,700 options, 196,350 of which were exercised in 2017, however, the issuance of the shares from authorized capital and thus the receipt by the Management Board member took place only in fiscal year 2018.

**²⁾ Transfer of options to companies wholly owned by the Management Board member.

***³⁾ Comprises all options granted under the LTI 2018 for the five-year contract term.

6.1 CORPORATE GOVERNANCE REPORT

David Schneider
Member of the Management Board

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IN EUR	Benefits granted (Code)			Benefits received (Code)			Benefits (GAS 17)	
	2018	2018 (min)	2018 (max)	2017	2018	2017	2018	2017
Non-performance-based remuneration								
Fixed compensation	188,750	188,750	188,750	200,000	188,750	200,000	188,750	200,000
Fringe benefits	11,532	11,532	11,532	14,945	11,532	14,945	11,532	14,945
Total	200,282	200,282	200,282	214,945	200,282	214,945	200,282	214,945
Performance-based remuneration								
Short-term incentives (non-stock-based)								
One-year variable compensation	-	-	-	-	-	-	-	-
Long-term incentives (stock-based)								
Multi-year variable compensation								
SOP 2011 (2011–2018)	-	-	-	-	14,741,958*	-	-	-
SOP 2013 (2013–2018)	-	-	-	-	-	11,292,445**	-	-
LTI 2018 (2018–2023)	19,151,015***	-	170,000,075***	-	-	-	19,151,015	-
Total	19,151,015	-	170,000,075	-	14,741,958	11,292,445	19,151,015	-
Pension expense	-	-	-	-	-	-	n.a.	n.a.
Total	19,351,297	200,282	170,200,357	215,945	14,942,240	11,507,390	19,351,297	214,945

^{*)} The receipt of EUR 14,741,958 relates to the exercise of 392,700 options, 196,350 of which were exercised in 2017, however, the issuance of the shares from authorized capital and thus the receipt by the Management Board member took place only in fiscal year 2018.

^{**)} Transfer of options to companies wholly owned by the Management Board member.

^{***)} Comprises all options granted under the LTI 2018 for the five-year contract term.

6.1 CORPORATE GOVERNANCE REPORT

Rubin Ritter
Member of the Management Board

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IN EUR	Benefits granted (Code)			Benefits received (Code)			Benefits (GAS 17)	
	2018	2018 (min)	2018 (max)	2017	2018	2017	2018	2017
Non-performance-based remuneration								
Fixed compensation	188,750	188,750	188,750	200,000	188,750	200,000	188,750	200,000
Fringe benefits	9,692	9,692	9,692	13,157	9,692	13,157	9,692	13,157
Total	198,442	198,442	198,442	213,157	198,442	213,157	198,442	213,157
Performance-based remuneration								
Short-term incentives (non-stock-based)								
One-year variable compensation	-	-	-	-	-	-	-	-
Long-term incentives (stock-based)								
Multi-year variable compensation								
SOP 2011 (2011–2018)	-	-	-	-	11,011,028*	3,886,702	-	-
SOP 2013 (2013–2018)	-	-	-	-	8,990,000	-	-	-
LTI 2018 (2018–2023)	19,151,015**	-	170,000,075**	-	-	-	19,151,015	-
Total	19,151,015	-	170,000,075	-	20,001,028	3,886,702	19,151,015	-
Pension expense	-	-	-	-	-	-	n.a.	n.a.
Total	19,349,457	198,442	170,198,517	213,157	20,199,470	4,099,859	19,349,457	213,157

*) The receipt of EUR 11,011,028 relates to the exercise of 308,550 options, 196,350 of which were exercised in 2017, however, the issuance of the shares from authorized capital and thus the receipt by the Management Board member took place only in fiscal year 2018.

**) Comprises all options granted under the LTI 2018 for the five-year contract term.

The following table shows the total expense recognized for share-based payment plans of Management Board members in accordance with IFRS 2:

Expenses from Share-Based Compensations

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IN EUR	Robert Gentz		David Schneider		Rubin Ritter	
	Jan 1 – Dec 31, 2018	Jan 1 – Dec 31, 2017	Jan 1 – Dec 31, 2018	Jan 1 – Dec 31, 2017	Jan 1 – Dec 31, 2018	Jan 1 – Dec 31, 2017
Equity-settled	3,491,780	1,235,855	3,491,780	1,235,855	3,491,780	1,235,855
Total	3,491,780	1,235,855	3,491,780	1,235,855	3,491,780	1,235,855

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 an annual fixed remuneration of EUR 65,000. The chairperson of the Supervisory Board receives a fixed remuneration of EUR 150,000 p.a., and the deputy chairman of the Supervisory Board receives a fixed remuneration of EUR 90,000 p.a. 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 approves 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.

6.1 CORPORATE GOVERNANCE REPORT

Remuneration for fiscal year 2018 breaks down as follows:

Supervisory Board Remuneration

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IN EUR	2018	2017
Lothar Lanz (since February 10, 2014)	165,000	165,000
Lorenzo Grabau (until May 31, 2017)	0	43,269
Kai-Uwe Ricke (until May 31, 2017)	0	41,209
Anders Holch Povlsen (since December 9, 2013)	90,000	79,698
Alexander Samwer (since December 9, 2013)	65,000	65,000
Jørgen Madsen Lindemann (since May 31, 2016)	80,000	73,819
Konrad Schäfers (since June 2, 2015)	80,000	80,000
Dylan Ross (until January 15, 2018)	2,500	65,000
Beate Siert (since June 2, 2015)	65,000	65,000
Shanna Prevé (since May 31, 2017)	65,000	38,214
Dominik Asam (since May 31, 2017)	100,000	58,791
Anthony Brew (since May 23, 2018)	39,643	0
Total	752,143	775,000

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 at December 31, 2018, and the income statement for the fiscal year from January 1 to December 31, 2018 and notes to the financial statements, including the recognition and measurement policies presented therein. In addition, we have audited the management report of ZALANDO SE, which is combined with the group management report, for the fiscal year from January 1 to December 31, 2018. In accordance with the German legal requirements, we have not audited the content of the statement on corporate governance contained in the management report pursuant to Section 289f HGB ["Handelsgesetzbuch": German Commercial Code].

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

- the accompanying annual 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, 2018 and of its financial performance for the fiscal year from January 1 to December 31, 2018 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 pursuant to Section 289f HGB contained in the corporate governance report of the management 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, 2018. 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, the company typically satisfies 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 free of charge within the revocation period stipulated by law and, in addition to that period, the return periods granted by Zalando. Zalando SE's executive directors calculated expected returns, for which no revenue is recognized. This calculation is based on assumptions and judgments in particular on country-specific, payment method-specific and month-specific rates of returns, taking seasonal influences into account. Revenue has a significant influence on the net income of the company and is one of the most important performance indicators for Zalando.

Due to the high transaction volume of the sales of merchandise and the generally possible risk of fictitious revenue and the uncertain estimate of expected returns, we consider the occurrence and measurement of revenue from the delivery of merchandise to be a key audit matter.

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. We also 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 the executive directors of ZALANDO SE. We compared the assumed month-specific, payment method-specific and country-specific rate of returns with actual

historical month-specific, payment method-specific and country-specific rates of returns, among other things, taking seasonal influences into account and analyzed them. In order to evaluate the assumed month-specific, payment method-specific and 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 measurement of revenue from the dispatch of merchandise, taking expected returns into account.

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 Sections 3.1.2 (Accounting and Valuation Methods) and 3.1.4 (Notes to the Income Statement) in the Notes to the Financial Statements.

2) Subsequent measurement of merchandise inventory

Reasons why the matter was determined to be a key audit matter

The company'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 annual 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 estimated net realizable 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 SE's executive directors applied in calculating the merchandise inventory and the timely recognition of write-downs.

We also analyzed the process used by Zalando SE's executive directors regarding the subsequent measurement of merchandise and gained an understanding of the process steps.

Within the scope of the valuation model, the executive directors consider the expected sell-through of merchandise for various sales channels and seasons. We compared the timing of the sell-through using past data 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 Sections 3.1.2 (Accounting and Valuation Methods) and 3.1.3 (Notes to the Balance Sheet) in the Notes to the Financial Statements.

3) Recognition and measurement of capitalized development costs for internally generated software

Reasons why the matter was determined to be a key audit matter

Key components of the software solutions used by ZALANDO SE for operational business processes are developed internally. The capitalization and measurement of the development costs incurred for this software are based on the estimates and assumptions by the executive directors of ZALANDO SE, which mainly pertain to the clear differentiation from refinements to existing software, the technical and economic feasibility as well as the amount and the period of the expected economic benefit generated from the development projects. Furthermore, the amount of capitalized personnel costs incurred for software development is subject to judgment, as is the assessment whether and in what amount write-downs or write-offs are necessary, for example to what extent certain expectations of the feasibility of the projects are not met or assumptions regarding the future flow of benefits have to be reassessed.

We consider the recognition and measurement of capitalized development costs for internally generated software a key audit matter due to the many software projects in development as well as high degree of the executive directors' estimates and assumptions that are subject to judgment.

Auditor's response

During our audit of the recognition and measurement of the development costs incurred for software, we verified the process implemented by the executive directors to capitalize development costs for internally generated assets based on the documentation provided to us. Furthermore, we tested the effectiveness of the internal controls in place.

We also verified the company's analyses for recognizing the development costs of internally generated software (including the recognition of time taken for development as well as regarding the progress of the project) and performed substantive audit procedures.

The substantive audit procedures contained, among other things, an analytical review of the list of all capitalized software development projects in terms of their amount and age structure. Furthermore, we performed substantive tests on a sample basis of the software development projects capitalized in the fiscal year in terms of the ability to recognize development costs, the existence of substantial developments compared to software solutions that have already been developed, the executive directors' assumptions in determining useful lives and in deciding when to commence

amortization. We verified and assessed the existence of substantial developments as well as the amount and period of the expected economic benefit using the criteria for recognition of the individual projects documented by the executive directors. For estimating the useful lives and the commencement of amortization, we discussed the useful lives and capitalization dates for the software development projects with the executive directors to determine which estimates and considerations were used for the values used as a basis. To assess the useful lives, we reconciled them with comparable projects recognized in the past. We also verified on a sample basis the amount of the capitalized development costs for significant projects using the supporting documentation for the hours worked.

To identify indications of a potential impairment for derecognition requirement pertaining to existing development projects, we analyzed the age structure of projects in development as well as project-related progress reports and discussed the reasons for recording or not recording impairments for derecognitions of older projects with the executive directors and the employees responsible.

Our audit procedures did not lead to any reservations regarding the recognition and measurement of capitalized development projects for internally generated software.

Reference to related disclosures:

With regard to the accounting policies applied for the subsequent measurement of internally generated software, we refer to the company's disclosures in Sections 3.1.2 (Accounting and Valuation Methods) and 3.1.3 (Notes to the Balance Sheet) in the Notes to the Financial Statements.

Other information

The Supervisory Board is responsible for the report of the Supervisory Board. In all other respects, the executive directors are responsible for the other information. Other information comprises the information included in the statement on corporate governance pursuant to Section 289f HGB contained in the section "Corporate Governance Report" in the management report as well as the remaining components of the annual report and the 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
- the "Report of the Supervisory Board" 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 23, 2018. We were engaged by the Supervisory Board on July 30, 2018. 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:

- review of the company's voluntarily prepared half-year financial statements as at June 30, 2018
- audit of the system to comply with the requirements pursuant to Section 32 (1) WpHG [“Wertpapierhandelsgesetz”: German Securities Trading Act]
- audit to obtain limited assurance of the non-financial statement pursuant to Section 289b et seq. and Section 315b et seq. HGB
- services in connection with the enforcement proceedings

German Public Auditor responsible for the engagement

The German Public Auditor responsible for the engagement is Sebastian Haas.

Berlin, February 25, 2019

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, restructuring costs and non-operating one-time effects.

Adjusted EBITDA

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

Average Basket Size

We define the average basket size as the total amount spent by our customers (including the gross amount spent in our Partner Program and including VAT) after cancellations and returns, divided by the number of orders delivered 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.

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.

EBIT

EBIT is short for earnings before interest and taxes.

EBITDA

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

EBIT Margin

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

Fashion Verticals

Fashion companies that control the entire value chain (manufacturing, design, distribution and retail) (e.g. Inditex or Uniqlo).

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.

Free Cash Flow

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

Gross Merchandise Volume (GMV)

GMV is defined as the value of all merchandise sold to customers after cancellations and returns and including VAT. It does not include B2B revenues (e.g. Partner Program commission, Zalando Marketing Services or Zalando Fulfillment Solutions) and other B2C revenues (e.g. service charges like express delivery fees) – these are included in revenue only. GMV is recorded based on the time of the customer order.

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.

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 cancellations or returns. An order is counted on the day the customer places the order. The number of orders placed may differ from the number of orders delivered because the orders at the end of the reporting period may still be in transit or may have been canceled.

Private Labels

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

Purpose

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

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.

RMS

The Risk Management Team, as the dedicated instrument of the Management Board, has implemented a risk and opportunity management system (RMS) based on the framework of the Committee of Sponsoring Organizations of the Treadway Commission (COSO) Enterprise Risk Management Standard as well as on the Institute of Public Auditors in Germany (IDW) Assurance Standard 981.

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.

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.

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/en>.

