

LOCATION MAP OF EUROPE



SHORT PROFILE

FOUNDED 2008 IN BERLIN, ZALANDO SE IS EUROPE'S LEADING ONLINE FASHION PLATFORM

In the Zalando shop, we offer our customers clothing, shoes and accessories for women, men and children and a fashion world of more than 1,500 brands, including global and local brands, as well as private labels especially designed for Zalando.

The Zalando shop is tailored to country-specific customer preferences and online in 15 European markets.

ZALANDO BRINGS PEOPLE AND FASHION TOGETHER

Building on the three core competencies of Fashion, Technology and Operations, we have created four strategic areas: Consumer Products, Brand and Merchant Products, Intermediary Products, and Core Capabilities.

Here, we develop products and solutions for our customers, brands, merchants and other members of our growing platform. In this way, we provide our customers with innovative ways to access fashion – and an amazing shopping experience.

LOCATION MAP OF GERMANY



SEGMENT FIGURES

	JAN 1–DEC 31, 2015	JAN 1–DEC 31, 2014
Earnings position segments		
Revenue DACH (in EUR m)	1,580.1	1,234.0
Adjusted EBIT DACH (in EUR m)	101.9	83.0
Adjusted EBIT DACH (in % of revenue)	6.4	6.7
Revenue Rest of Europe (in EUR m)	1,211.6	862.6
Adjusted EBIT Rest of Europe (in EUR m)	–3.3	–11.6
Adjusted EBIT Rest of Europe (in % of revenue)	–0.3	–1.3

ZALANDO AT A GLANCE

KEY FIGURES

	JAN 1–DEC 31, 2015	JAN 1–DEC 31, 2014	CHANGES
Group key performance indicators			
Site visits (in millions)	1,656.4	1,363.8	21.5%
Mobile visit share (in %)	57.1	42.3	14.8pp
Active customers (in millions)	17.9	14.7	22.4%
Number of orders (in millions)	55.3	41.4	33.5%
Average orders per active customer	3.1	2.8	9.1%
Average basket size (in EUR)	67.8	66.6	1.8%
Adjusted marketing cost ratio (in % of revenue)	11.7	13.2	–1.4pp
Adjusted fulfillment cost ratio (in % of revenue)	25.8	22.3	3.5pp
Results of operations			
Revenue (in millions)	2,958.2	2,214.0	33.6%
EBIT (in millions)	89.6	62.1	44.3%
EBIT (in % of revenue)	3.0	2.8	0.2pp
Adjusted EBIT (in EUR m)	107.5	81.9	31.3%
Adjusted EBIT (in % of revenue)	3.6	3.7	–0.1pp
Financial position			
Net working capital (in EUR m)	–2.6	–3.7	–30.3%
Equity ratio (in % of total liabilities)	60.1	63.1	–3.0pp
Cash flow from operating activities (in EUR m)	119.4	174.8	–31.7%
Cash flow from investing activities (in EUR m)	–196.5	–51.8	279.3%
Cash and cash equivalents (in EUR m)	976.2	1,051.0	–7.1%
Other			
Employees (as of Dec 31)	9,987	7,588	31.6%
Basic earnings per share (in EUR)	0.49	0.21	137.5%

pp = percentage point

OTHER FACTS

OVER **1,500**

LABELS ARE REPRESENTED IN THE ZALANDO SHOP

OVER **150,000**

FASHION ITEMS

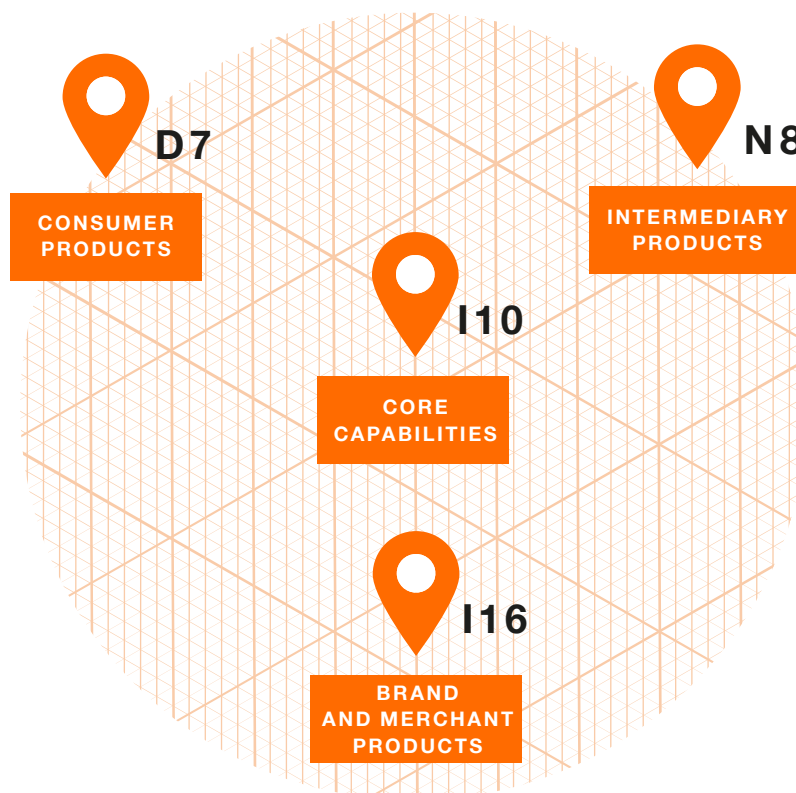
ABOUT **1,000**

EMPLOYEES WORKING IN TECHNOLOGY

ALL PACKAGING IS **100%**

RECYCLABLE

ZALANDO PLATFORM



**WE CONNECT FASHION AND PEOPLE
BY PROVIDING OUR CUSTOMERS AND PARTNERS
WITH EUROPE'S LARGEST FASHION PLATFORM.**

Across our innovative, growing network we enable all our platform members to interact with each other, using different channels and media. With our technological expertise, and our love of fashion, that's how we continually improve our customers' shopping experience.

EASY NAVIGATION MENU



Follow this link for extra online content.



OVERVIEW

The coordinates on the folding map will help with orientation on Zalando's platform.



**ZALANDO
STRATEGY**



**FOR THE
QUICK READER**



**FURTHER INFORMATION
ON THE INTERNET**



**FURTHER INFORMATION
IN THE REPORT**

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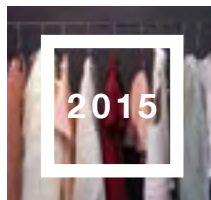
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RUBIN RITTER

DAVID SCHNEIDER

ROBERT GENTZ

DEAR SHAREHOLDERS, DEAR FRIENDS,

2015 was our first year as a public company – and it was a successful one. We managed to live up to the high expectations on our young team. We proved ourselves as a grown-up, highly professional organization with very robust commercial and corporate processes in place. We delivered strong financial results and reaccelerated growth in a challenging market environment, further strengthening our position as Europe's leading online fashion platform.

While we are all proud of what we achieved last year, our focus lies on the long-term success of our company. Instead of focusing on quarterly results, we want our team to drive projects forward that will make us successful in the next decades. We therefore continuously work on improving the shopping experience for every customer journey, strengthening our relationships to our brand partners and building the foundation for our platform strategy with focused investments into tech resources.

Going public required a lot of focus from our organization in 2014. Therefore we chose to make 2015 the year of the customer: even more than before, we place the customer at the core of our commercial and operational activities. We believe that this focus is crucial to turn even more customers into true Zalando fans and increase loyalty long-term. Our success proves us right – we counted almost 18m active customers at the end of 2015.

As Europe's leading online platform for fashion we want to be first choice, not only for customers, but also for our brand partners. We continued to make our assortment even more appealing to the customer by adding top international brands and product areas. At the same time, we launched several new features that provide our customers with a more personalized access to a widening assortment with more choices, e.g. feed functionalities that provide more inspiration and a more relevant selection of products. We strengthened our relations and cooperation with new and existing partner brands, for example with joint marketing campaigns that help to shape the perception of our brand.

Executing on our long-term platform strategy to define new ways of connecting customers with fashion, we laid the foundation with targeted investments into tech resources and capabilities, growing to 1,000 tech professionals in 2015. Further investments will follow to support our mission of building the operating system for the fashion industry. A strong tech core will also be the key enabler to help us developing, testing and launching new products. Last year we made first additions to the Zalando platform, introducing Zalon, our curated shopping service, and Zalando Media Solutions, our digital advertising service.

None of our success would be possible without our great team. Zalando now employs about 10,000 people in Europe, which come from more than 100 different nationalities. We have opened new tech hubs in Dublin and Helsinki, and decided to build the Zalando Campus in the center of Berlin by 2018.

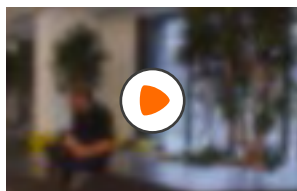
Our position has never been stronger, and our opportunities have never been more exciting.

Berlin, February 29, 2016

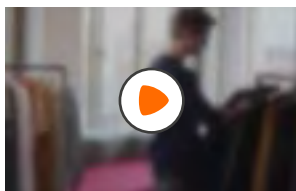
Robert Gentz

David Schneider

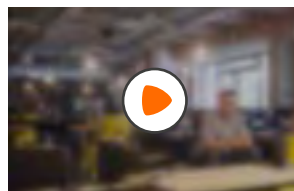
Rubin Ritter



**WHAT WAS YOUR PERSONAL
SUCCESS STORY IN 2015, ROBERT?**
<http://zln.do/1OHGu0l>



**WHAT WAS YOUR BEST MOMENT
IN 2015, DAVID?**
<http://zln.do/1OHGu0l>



**WHAT WAS YOUR PERSONAL
HIGHLIGHT IN 2015, RUBIN?**
<http://zln.do/1OHGu0l>

01.2 CORPORATE STRATEGY

ZALANDO IS EUROPE'S LEADING ONLINE FASHION PLATFORM FOR WOMEN, MEN AND CHILDREN. WE PROVIDE OUR CUSTOMERS WITH A CONVENIENT ONE-STOP SHOPPING EXPERIENCE, OFFERING AN EXTENSIVE SELECTION OF FASHION ITEMS INCLUDING SHOES, APPAREL AND ACCESSORIES, WITH FREE DELIVERY AND RETURNS. OUR ASSORTMENT OF MORE THAN 1,500 INTERNATIONAL BRANDS – RANGING FROM POPULAR GLOBAL BRANDS TO FAST FASHION AND LOCAL BRANDS – IS COMPLEMENTED BY OUR PRIVATE LABEL PRODUCTS. OUR LOCALIZED OFFERING CATERS TO THE DIFFERENT PREFERENCES OF OUR CUSTOMERS IN EACH OF OUR 15 EUROPEAN MARKETS.

Our logistics network, with three central fulfillment centers in Germany, allows us to efficiently serve our customers throughout Europe. A new fulfillment center in Southern Germany, and our first international fulfillment center in Northern Italy, are in the planning stages.

Zalando's websites attract more than 138 million visits per month. In the fourth quarter of 2015, roughly 60% of traffic came from mobile devices, and we had more than 17.9 million active customers by the end of the year.

MORE THAN

138_M

VISITS PER MONTH

01.2.1 STRATEGIC FRAMEWORK

Our business model is based on three pillars: **Fashion, Technology and Operations**. Fashion represents Zalando's retail offering, Technology underpins every step of the company's value chain, and Operations, specifically our highly efficient fulfillment infrastructure, plays a vital part in contributing to customer satisfaction. The effective interplay between these three pillars is central to the company's success, as demonstrated by the 2015 financial results.

Our market offers a significant opportunity: the European fashion market¹ had total sales of approximately EUR 417bn in 2015². While total fashion retail sales remained largely stable between 2010 and 2015, online sales doubled from EUR 24bn in 2010 to EUR 46bn in 2015, implying a compound annual growth rate (CAGR) around 15%³. However, with only 11% of the total market in 2015, the online share is still relatively small. Despite being the European leader in pure-play online fashion, with annual revenues of ~ EUR 3bn, Zalando has a market share of less than 1% of the total addressable market.

It is our ambition to achieve a market share of more than 5%, which is the basis of our annual revenue growth corridor of 20–25% for the coming years. Fashion as an e-commerce category has significant potential and we expect continued growth in the coming years. With a leading market position and customer proposition, we believe we are well placed to capture a disproportionate share of the online market. For example, in our most mature category and geography, shoes in Germany, we already have a market share of around 5%⁴. In addition, being a multi-brand aggregator, we believe we should be able to capture a market share larger than large incumbent European verticals, who have approximately 4% and 3%⁵ respectively. A further key driver for growing market share is our platform strategy, which we started implementing in early 2015.



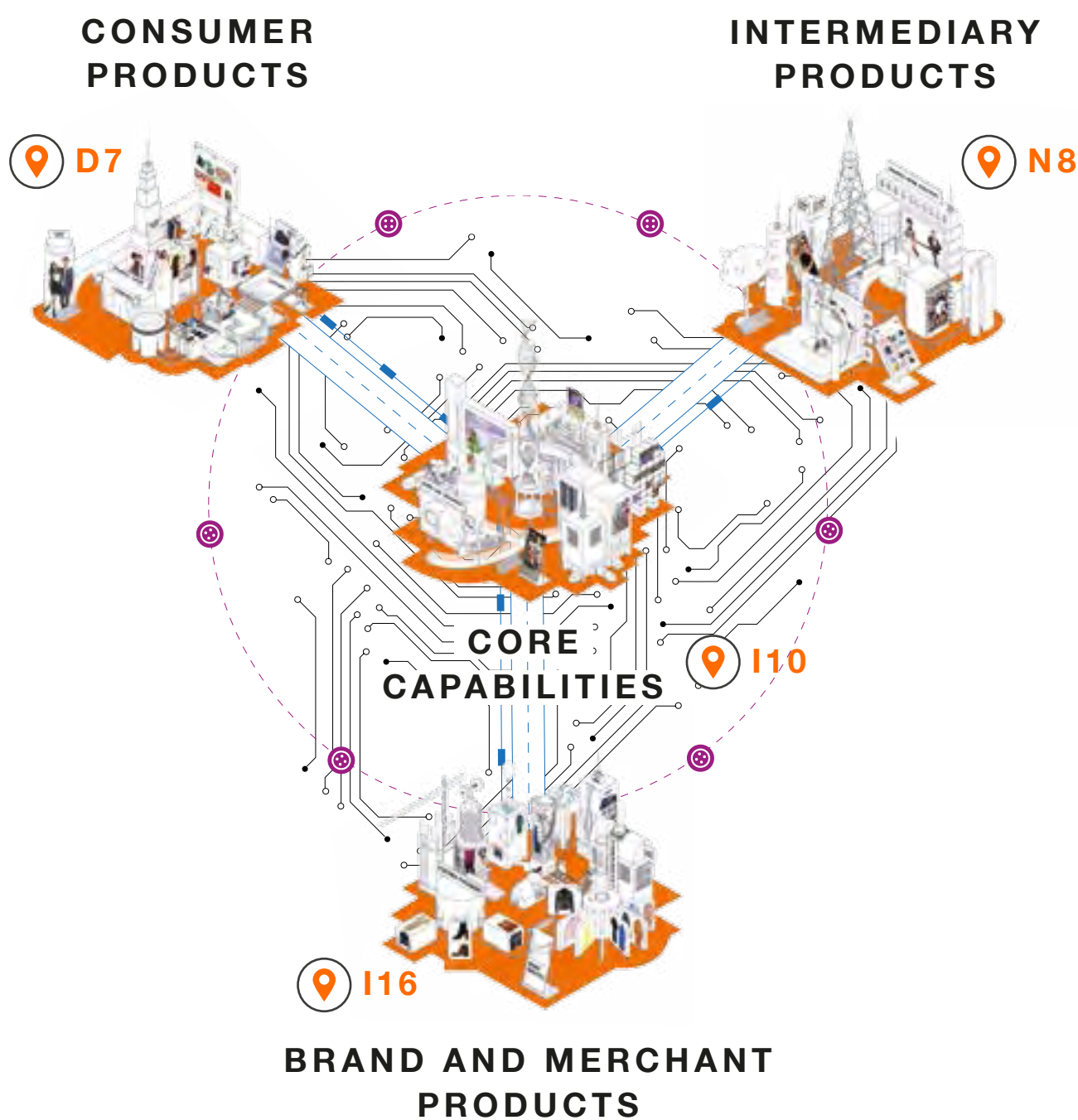
JAN WILMS IS TALKING ABOUT THE PLATFORM STRATEGY.

<http://zln.do/1LpWtG5>

1) Excluding Russia
2) Source: Euromonitor International, January 2015
3) Source: Euromonitor International, January 2015
4) Source: Euromonitor International, January 2015
5) Source: Euromonitor International, January 2015

01.2.2 PLATFORM STRATEGY

Our aim is to connect people and fashion. We are building the technological infrastructure for online and mobile fashion commerce that enables all participants to create value through our platform. In everything we do, we serve **customers, brands and intermediaries**.





FURTHER INFORMATION
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Customers visit us to discover fashion from a broad range of brands, and to shop on a regular basis. Brands appreciate us as their strategic partner because we offer them instant access to the entire European fashion market, significant traffic, deep insights into customer buying behavior, a clear fashion focus, and access to a platform that lets them present themselves in an engaging way. Intermediaries are third-party service providers that interact in the fashion market as stakeholders, such as fashion stylists, logistics providers and marketing affiliates. To connect customers, brands and intermediaries effectively, we are continually developing and improving our technological and operational capabilities.

01.2.3 CONSUMER PRODUCTS

The large and growing number of customers we serve, and the increase in shopping frequency on our platform reflect our appeal to customers. In fiscal year 2015, we had **17.9 million active customers** who placed an average of 3.1 orders through our websites and apps. We design our websites and apps to sell millions of unique fashion and lifestyle products from hundreds of brands across multiple categories – in a user-friendly way.

Our customers' preferences are as diverse as our portfolio. The **average customer is 25–45 years old**, and ~75% are female. Through our various channels, such as Zalando Shop, Zalando Lounge and Zalon, we cater to the needs of different customers.

In our largest channel, the Zalando Shop, we mainly serve customers focused on a broad fashion assortment and convenience – including free, fast and reliable delivery and returns. Bargain hunters, meanwhile, prefer our Zalando Lounge channel, featuring attractive daily sales campaigns with deep discounts, but longer delivery times and added delivery charges. And with Zalon, we recently launched a curated shopping service offering free personal style advice for those seeking fashion inspiration.

With 17.9 million active customers, we currently only capture a portion of the European market of 427 million⁶ people. Our goal is to **extend our customer reach** by including additional offers that address even more customers through new channels, an even wider assortment, and different value propositions.



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01.2.4 BRAND AND MERCHANT PRODUCTS

We provide the fundamental technological infrastructure and marketing reach that helps brands leverage the power of the internet. Currently, we operate the Zalando Shop, which sells around 150,000 styles from over 1,500 brands. Owning almost the entire inventory, we engage in direct sales to the customer.

⁶) Source: Euromonitor International, January 2015

We also let selected brands sell their products directly on our websites via our **partner program**. In this model, we connect the customers with the brand who then sells directly to the customer. We receive a commission on the sale, and the brand is responsible for the delivery process. With our platform strategy, we will increase the opportunities for brands to sell their products directly through our websites and mobile apps. We believe that such opportunities can take various forms, enabling different groups of brands to sell their merchandise through our ecosystem, e.g. branded/unbranded market places, different kinds of production models or custom-designed tools that connect the offline world to the online world.

Furthermore, we already provide a **brand solutions service** to our brands, encouraging them to create their own personal brand store within the Zalando Shop, and assisting them with analytics. Going forward, the service level Zalando provides to their brand partners can vary: for example, fulfillment by Zalando versus fulfillment by the brand. Similar to the partner program, our function is not to be the seller of record in those transactions. Instead, we offer our partners the chance to use this business model, and Zalando earns commissions depending on the service level provided.

01.2.5 INTERMEDIARY PRODUCTS

We are developing a large ecosystem for online and mobile fashion commerce that enables participants to create and share value. Participants include fashion stylists, logistics providers and marketing affiliates:

Fashion stylists: We function as an online platform that gives independent stylists the opportunity to provide our customers with personal shopping advice through our stylist tool Zalon. This set-up is good for everyone: stylists earn a commission on their services, customers receive free advice, and Zalando now has an offering for customers looking for advice.

Logistics providers: In order to efficiently conduct business in each of our markets, we work closely with a multitude of logistics partners, including long-haul and last-mile delivery services. In addition, we run eight decentralized return centers throughout Europe, mainly managed by external service providers.

Marketing affiliates: With the launch of Zalando Media Solutions, we have developed a proprietary online marketing technology platform. Brands and other advertisers are invited to place their marketing content on this platform into our shop websites and apps. That content can also be placed on marketing affiliates' websites and mobile apps. Our marketing partners benefit from our wide reach with more than 400 million visits every quarter across 15 European markets, and the targeted control of advertising content. Zalando earns commissions from this additional marketing offering.



FURTHER INFORMATION
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FURTHER INFORMATION
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01.2.6 CORE CAPABILITIES: TECHNOLOGY AND OPERATIONS

Our technology and smart data capabilities are at the core of our platform and help us create improved solutions for customers, brands and intermediaries – as well as drive efficiency across all processes. We consider our own technology systems secure, robust and highly scalable. This facilitates efficient supply chain management, sourcing, customer relations, enterprise resource planning, risk management control, as well as stakeholder-facing e-business functionalities. The effective utilization of our technology platform and smart data solutions is at the core of our business success, helping to optimize processes and contributing to well-informed decision-making across our organization.

The **localization of Zalando's products and services** is a key contributor to our success in the European fashion market. The design of our processes and services is tailored to customer requirements in the various regions – from adapted product offerings and preferred methods of payment and delivery to free customer service in the respective local languages.

This contrasts with centralized processes within the platform, such as content creation and order processing. In addition we offer free delivery and returns across Europe to all our customers.

290,000_{m²}

FLOOR SPACE IN OUR
FULFILLMENT CENTERS

Our logistics infrastructure, with currently 290,000 m² divided between three central fulfillment centers in Germany, is being expanded with a further fulfillment center in southern Germany and another in northern Italy, the pilot project for the internationalization. The fulfillment centers in Brieselang, Erfurt, Mönchengladbach and soon Lahr and Stradella, allow us to quickly reach our customers all across Europe.

As one of our key strategic elements, we are making significant investments in proprietary technologies and infrastructure to support the growth of our platform. Our expertise allows us to harness the substantial volume of data generated from our platform and to further develop and optimize the products and services we offer.

We encourage innovation – such as our easy-to-use mobile shopping apps – by ensuring that most of time spent by our 1,000-strong technology team is dedicated to new projects across all process steps, always following their **Radical Agility** (see page 35) approach. As part of our technology expansion, we opened two international tech hubs in 2015: one in **Dublin** and another in **Helsinki**. In the Irish capital, we established our Fashion Insights Center, which focuses on data analytics. Our Helsinki hub focuses on customer-facing technologies, especially in the mobile sector.

01.3 ZALANDO PLATFORM

ZALANDO CONNECTS PEOPLE AND FASHION. IN FOUR PLATFORM AREAS – THE DISTRICTS OF ZALANDO'S FASHION CITY – WE DEVELOP THE MATCHING SOLUTIONS FOR CONSUMERS, BRANDS, MERCHANTS, AND OTHER FASHION PLAYERS.



CONSUMER PRODUCTS

We bring fashion and people together. Our customers and their needs always come first, and that's why we sharpened our customer focus with a range of innovative products and services in 2015.



BRAND AND MERCHANT PRODUCTS

Our expertise in technology and mobile allows us to connect brands, traders and manufacturers and give them new, lucrative access to the growing Zalando online fashion world.



INTERMEDIARY PRODUCTS

Our platform is conceived as a space for innovative ideas and new business models for the world of fashion. We make use of the new possibilities of online connectivity to link our various platform partners more efficiently and intelligently.

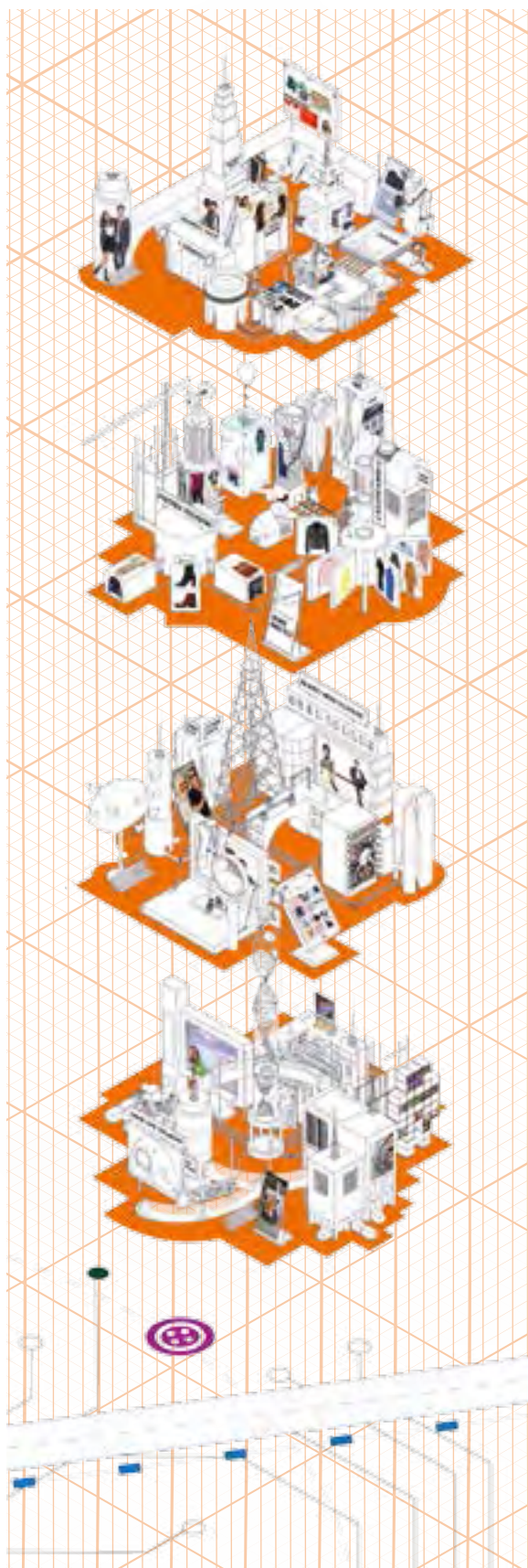


CORE CAPABILITIES

The more products and partners join our fashion platform, the more varied and complex it becomes. Our expertise in technology and operations holds everything together and creates additional synergies.

THE ZALANDO DNA

Our company's DNA – the Zalando Code – consists of *Fashion*, *Technology* and *Operations*. Together, these three core competencies are the basis of our platform strategy.





📍 D7

CONSUMER PRODUCTS

FASHION STORE – FASHION-EXPERTISE

THE FASHION STORE IS AT THE HEART OF EVERYTHING WE DO IN FASHION AND LIFESTYLE. BY OFFERING OUR CUSTOMERS A CURATED FASHION ASSORTMENT, AND TAKING DIGITALIZATION AND PERSONALIZATION FURTHER, WE CREATE A SHOPPING AND FASHION EXPERIENCE THAT BREAKS NEW GROUND.

To raise our customers' shopping experience to a new level, we collaborate intensively with all of our brand partners. By sharing our e-commerce know-how with them, we provide the best possible shopping experience for about 18 million customers in 15 European countries. This collaboration has led to the creation of our brand shops (see page 27), which are designed by our brand partners. Here visitors can fully explore the world of their favorite brands – just as they would in an online flagship store.

“The highlight for me was the Strategic Partner Day in spring, where we met our brand partners to swap ideas on new ways to work together.”

MORITZ HAHN, SVP MARKET AND CATEGORY MANAGEMENT

Our partner program helps us provide more availability and a broader product range (see page 25), and was rolled out to our Swiss customers in autumn 2015.

A CHANGING ROOM AT HOME

The continuous optimization of our fashion store relies on our knowledge of fashion and trends, as well as our expertise in e-commerce and smart data, which allows us to understand our customers and their needs. In 2015, we added further useful features that transform the living room into a comfortable changing room. With *Shop the Look*, customers can order complete, coordinated outfits, rather than single items, or discover other looks that feature their favorite items of clothing. Our *Trend Shop* addresses those customers looking for the hottest new trends. On the German site, customers can also take further inspiration from the new *Outdoor Adviser*, *Running Shop* and *Large Sizes* categories.



<http://zln.do/1LPtuGF>



KEY DEVELOPMENTS IN THE FASHION STORE IN 2015 INCLUDED:

- EXPRESS EVENING DELIVERY (IN SWITZERLAND)
- APPLE PAY (UK) ENABLING ONE-CLICK BUY
- TOUCH ID FOR THE IOS APP, SIMPLIFYING THE REGISTRATION AND CONFIRMATION PROCESS
- LIVE-CHATS WITH OUR CUSTOMER SERVICE PERSONNEL



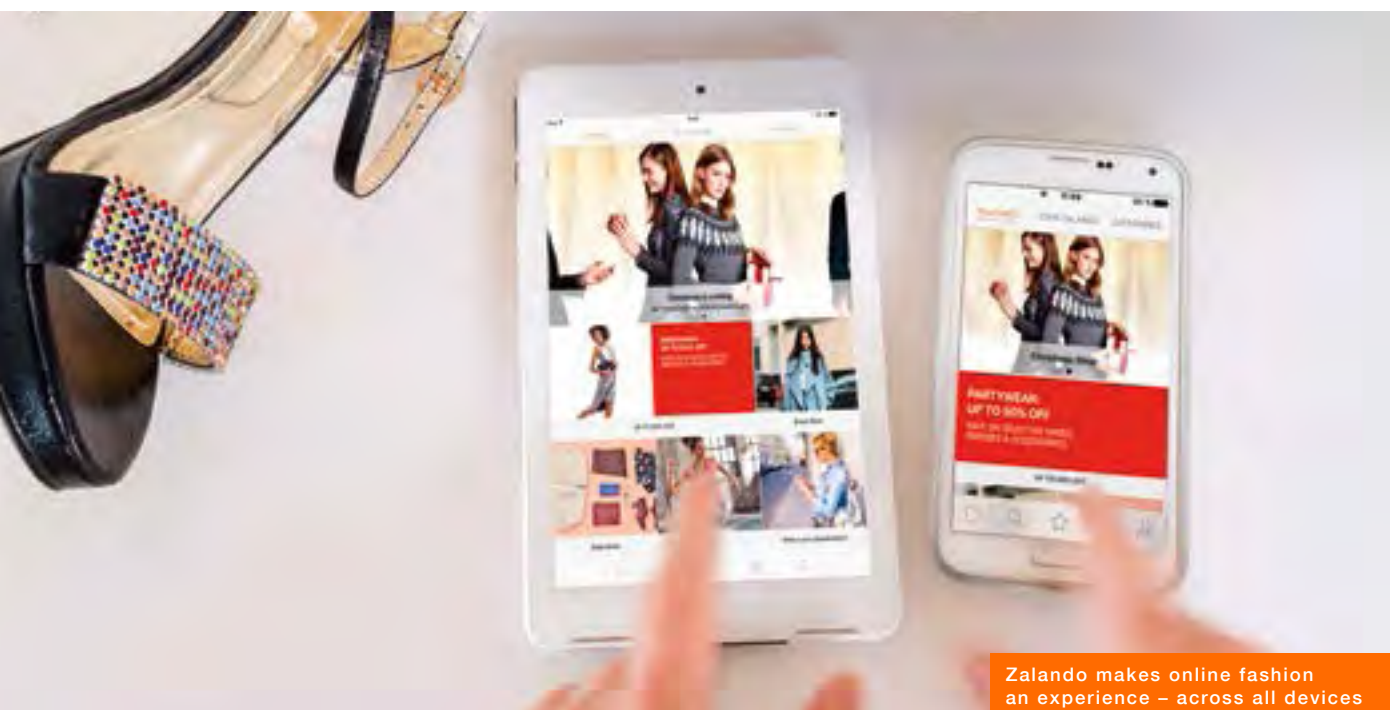
Those keen to put together their own styles will find the right piece faster with data-driven recommendations from *My Zalando*. They can design their own personal feed, and pick what they are shown – for example, by following their favorite brands. And for those customers who prefer to rely on expert opinion or are looking for inspiration, we have set up *Zalon*, our shopping advice service. In 2015, we started working with a select group of stylists (see page 19).

Behind the scenes, more than 400 fashion employees – buying teams, trend scouts and product managers – are hard at work, ensuring our offering reflects the latest trends and our customers' preferences. As Europe's largest online fashion platform, we make sure our customers remain inspired, and discover suitable products and services in every country, across all channels, on any device. This means being able to personalize the product offering on the Zalando app, having customer services teams who speak the customer's language, and using the preferred method of payment. And just like on the high street, customers only pay for the clothes they actually keep – the rest they can send back to us, free of charge.



"Our trend shop helps our customers navigate the fashion jungle."

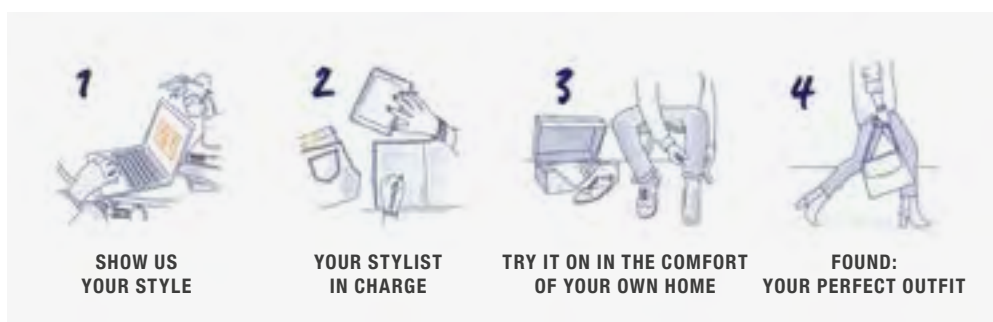
CLAUDIA RETH, VP FASHION DIRECTOR



Zalando makes online fashion an experience – across all devices

ZALON – CREATING DREAM OUTFITS, TOGETHER

IN EARLY 2015 WE LAUNCHED ZALON, OUR CURATED SHOPPING SERVICE, CONNECTING CUSTOMERS WITH PROFESSIONAL STYLISTS IN GERMANY, AUSTRIA AND SWITZERLAND.

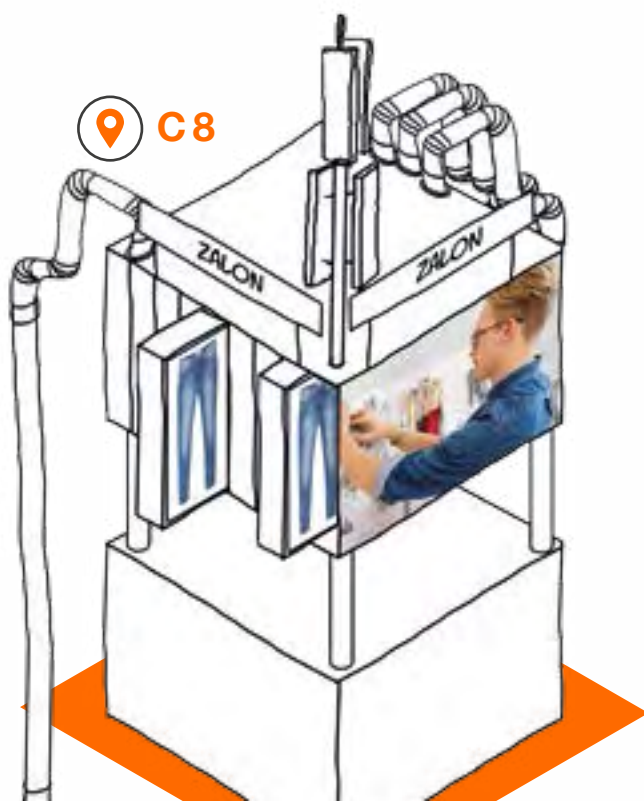


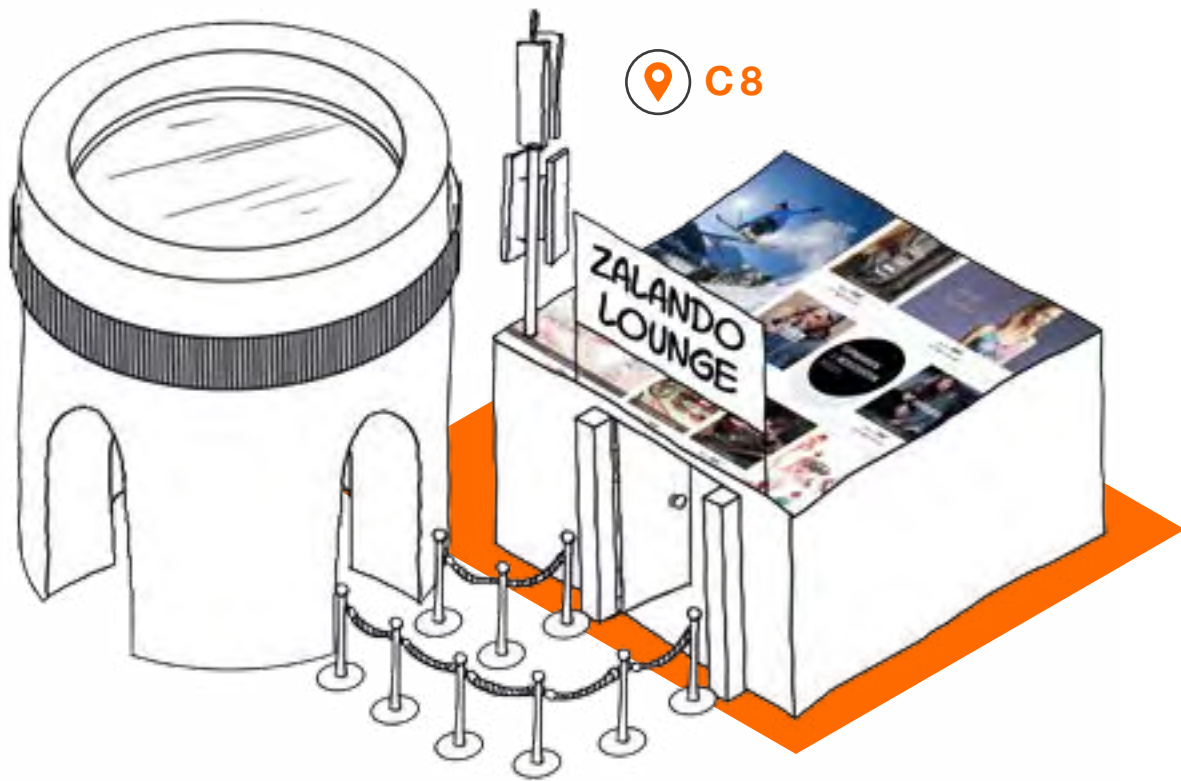
MORE THAN

200

EXPERIENCED
FASHION EXPERTS

Go beyond your style: Under this motto *Zalon* lets people discover and develop their own style with one of our 200 experienced fashion professionals – and it's free. We are democratizing fashion by giving everyone access to a service previously reserved for a chosen few. Based on questionnaires and personal conversations, the stylist puts together outfits for everyday life or special occasions, and has Zalando's 150,000+ items to play with. Building a **long-term relationship between our stylists and customers** is especially important. But we know that it's not always about the big fashion questions – sometimes our customers just need an answer fast, and that's why in autumn the Zalon team started offering free service via WhatsApp.

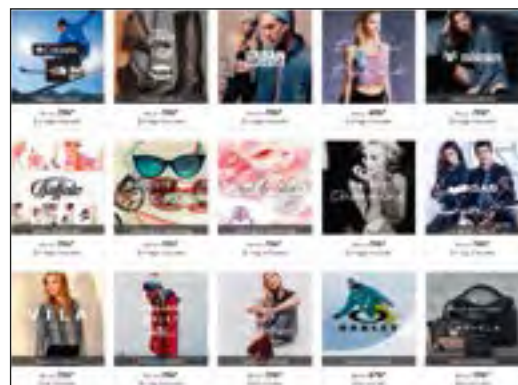




ZALANDO LOUNGE – THE FASHION CLUB

THE ZALANDO LOUNGE IS WHERE BRAND AND PRICE-CONSCIOUS CUSTOMERS GET MORE BANG FOR THEIR BUCK. IN 2015, WE FOCUSED THE LOUNGE EVEN MORE ON OUR CUSTOMERS AND THE MOBILE SHOPPING TREND.

More than 2,000 brand partners, up to 75% off, and daily sales campaigns – that's what Zalando Lounge customers can look forward to. The varied offering includes shoes, clothing and accessories, as well as sportswear and homeware, for women, men, and children. And it was all opened up to mobile users at the end of 2015 with the launch of the Zalando Lounge [app](#). Additional features such as calendar reminders and push notifications mean all of our customers get timely news about their favorite brands or products on their wish list. The Lounge's design and usability was revamped in late autumn, to offer our customers and brand partners a modern "magazine-style" look and improved filter options.



ZLABELS – GOING INTERNATIONAL

ZALANDO'S OWN-LABEL BRANDS ARE NOW A KEY PART OF THE FASHION STORE. WE DECIDED TO CATCH UP WITH ZLABELS, THE NAME BEHIND OUR IN-HOUSE BRANDS, AND TAKE A SHORT TOUR WITH MANAGING DIRECTOR CHRISTIAN BAIER.

Even before we visited zLabels on Berlin's Neue Bahnhofstraße, we knew this is where all the fashion expertise comes together. Here brands and products are created – from design to sale, the **entire fashion lifecycle** takes place under one roof. At the reception we are greeted by a landmark moment in the history of fashion – a screen showing amazing images of the first shoe sent into outer space by balloon, as part of the Hack Week Space-Shoe project.

Before we can witness the shoe's return to earth, we are greeted by Baier. By the time we enter the lift, conversation has already turned to Zalando's new strategy. "The sense of a fresh start we got from Zalando's platform strategy has really been infectious. We have also been thinking about where the journey will take us over the next few years. **Professionalizing** our operations was clearly foremost in our minds – teams that were once three-person operations now consist of thirty experts, with designers, product managers, product developers and merchandisers all working together."



Space-Shoe project: Developers send first shoe into space



At zLabels, creativity meets fashion expertise



Peeking behind the curtains at the creative hub

E7



We exit the lift and walk through bright, spacious corridors and rooms. You get a good sense of the creative process: scissors, sewing kits and materials are draped across tables, pin boards and display stands offer glimpses into the designers' work, and clothes for the current and upcoming seasons hang on rails along the corridors. Analogue and digital processes are fused. Among all the ideas and creativity, you can't help but ask yourself: how far have the zLabels brands come?

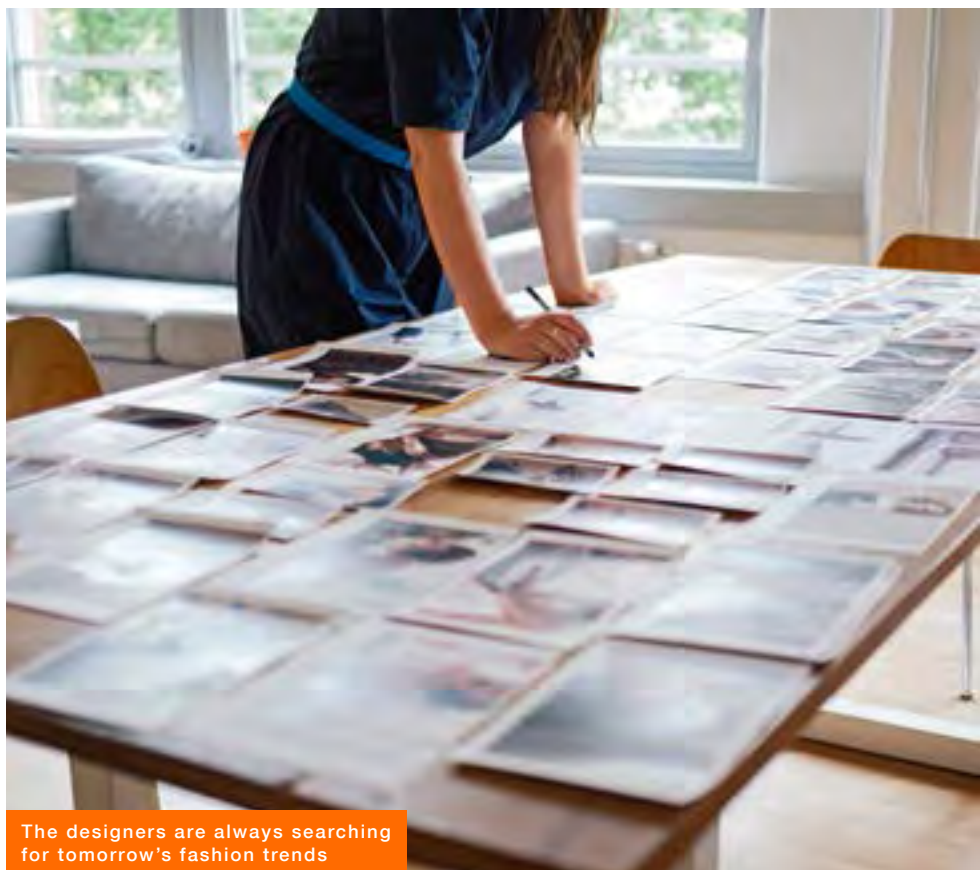
"Zign, mint&berry, KIOMI and even&odd are established brands that we support with marketing," says Baier. "Naturally our expertise in e-commerce and operations helps. But in the end, it's really all about the fashion. For example, we took on *Brooklyn's Own* by Rocawear, our first licensed brand, taking our portfolio from 15 to 16. We're also keen to keep growing our successful brands like mint&berry – it now offers both shoes and clothes. My personal highlight was our [mint&berry Ice Cream Market](#) event in mid-June. We invited our customers to the Haubentaucher, an open-air pool in Berlin, and gave them the chance to explore our summer collection over an ice cream. And without giving too much away, I can say that over the next few years we are going to further expand our product portfolio."



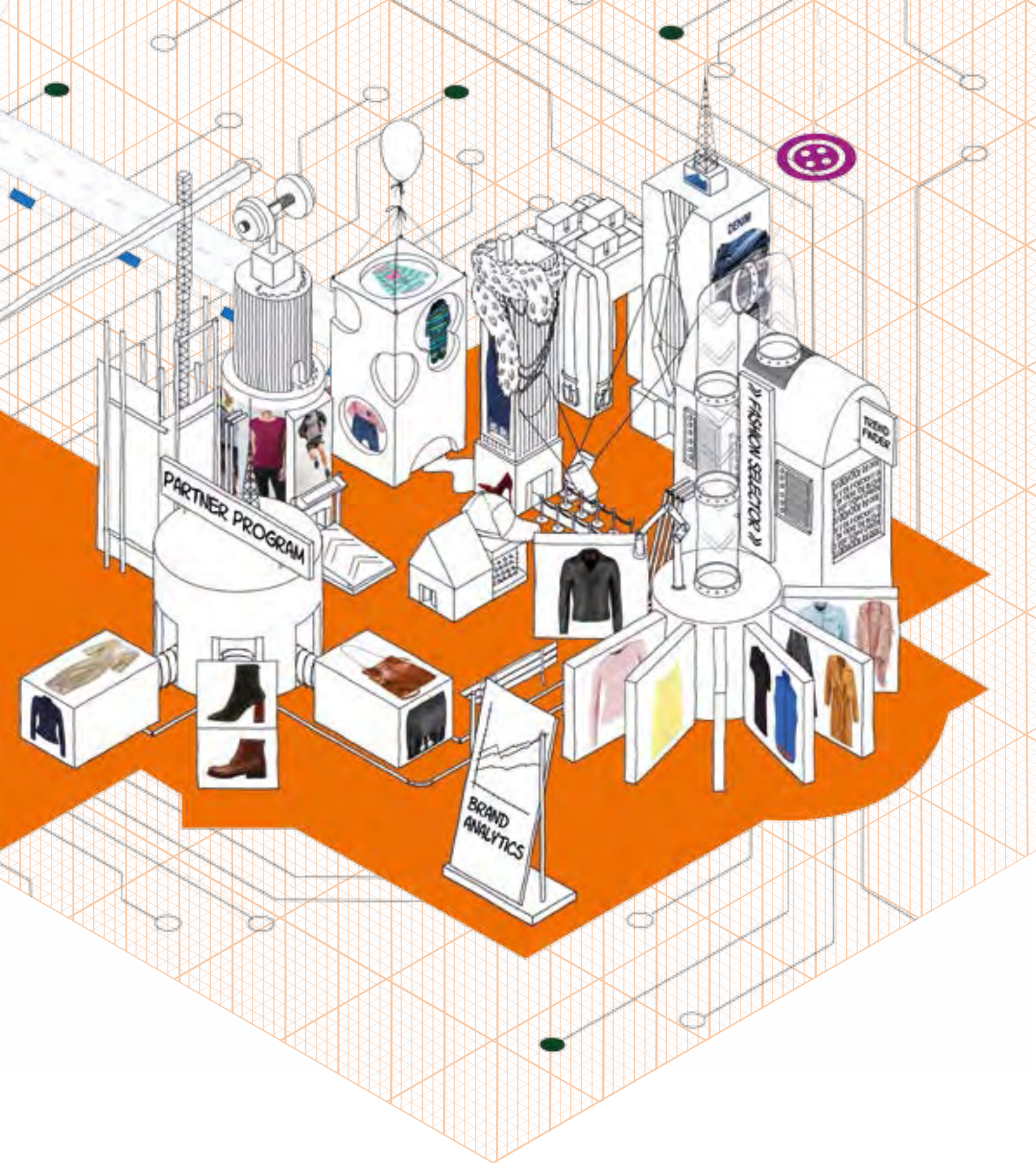
Zalando's trend scouts at work

The last stop on our tour is a large open-plan office, which is almost empty. Baier tells us that trend scouts don't just to do their research by thumbing through blogs and glossy magazines, but **travel around the fashion capitals** – at trade fairs, high-fashion boutiques and flea-markets. It's this knowledge that lets zLabels to predict and shape the trends for next season – and the one after that. In this context, 2015 was a year of acceleration, with trends becoming products and made available to customers faster than ever.

Before we say goodbye, Baier tells us his **vision for zLabels**. "We want to strengthen our core skills and build on our role as an innovator in connecting fashion and technology. Specifically, we want to ensure that we connect our suppliers better, technologically. But our overarching aim here at zLabels is to create fashion for the international online market that is more responsive, delivers higher quality across all price points, and that even more customers love. And that goes beyond Europe."



The designers are always searching for tomorrow's fashion trends



 I16

BRAND AND MERCHANT PRODUCTS

FROM ONLINE RETAILER TO FASHION PLATFORM

CONSUMERS LIKE TO SHOP WHERE THEY FIND THE BROADEST PRODUCT RANGE AND THE HOTTEST TRENDS. WITH OUR BRAND SOLUTIONS AREA, FOUNDED IN 2015, WE HAVE SYSTEMATICALLY DEEPEENED THE COOPERATION WITH OUR BRAND PARTNERS AND EXTENDED OUR PRODUCT PORTFOLIO IN THE FASHION STORE.

Over the past few years, thanks to our technological insights, we have found new ways to offer our customers diverse fashion choices from top international brands and an amazing shopping experience. A milestone in our development was the opening of more than 1,000 individual brand shops as part of our fashion store: this is where our **brand partners have been telling their story since 2015**, interacting directly with their customers, and managing their own campaigns. Using Content Management Systems and statistical analysis, they have full control over their portfolio and enjoy detailed data-driven insights into the online shopping habits of their customers. Over the past year, top brands such as Adidas, GAP and Nike have signed up to this model and launched their own brand shops. The partner program also allows brands to sell their merchandise in our fashion store while processing the orders themselves. The inventory control systems are linked up and Zalando customers can choose from an even broader range of products.

FASHION VARIETY THROUGH INNOVATIVE PARTNERSHIPS

We plan to extend our cooperation with partners into other areas, to further develop the shopping experience for our customers. We already started one notable cooperation in 2015 by partnering with Anatwine. We work with this online retail expert to produce technology solutions for brands and other fashion companies, such as retailers and producers, giving them faster and more efficient access to the Zalando platform via marketplace models and providing them with many benefits, such as access to 15 European markets.

The result: our product offering is even more comprehensive and appeals to new groups of customers. At the same time, by personalizing the shopping experience, we ensure that customers continue to be inspired in a growing fashion world, and find a style that suits them.

MORE THAN

1,000

BRAND SHOPS OF APPROX.
100 BRANDS



QUESTION TIME AT TEAM BRAND SOLUTIONS

CHRISTOPH LANGE IS VP OF BRAND SOLUTIONS, AND HAS BEEN AT ZALANDO SINCE ITS FORMATION IN 2008. IN THE CONTEXT OF OUR NEW PLATFORM STRATEGY, RELATIONSHIPS BETWEEN ZALANDO AND OUR BRAND PARTNERS ARE BEING FURTHER STRENGTHENED.

BRAND AND MERCHANT PRODUCTS became a core strategic area of the Zalando platform strategy in 2015. How did this come about?

LANGE: Quite early we realized that cooperation with our brand partners and close relationships with fashion labels are essential to Zalando's business. This led to the creation of *Brand Solutions*, for example, which allows brands to create their own brand shops. We're also looking at other innovations to strengthen our brand relationships long term.



Christoph Lange,
VP Brand Solutions

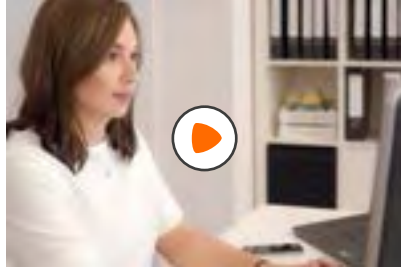


What will that look like?

LANGE: To put it simply, we want to use technology to make every conceivable type of fashion available to our customers. We want to give our partners a central, transparent connection to our modular fashion platform – not only brand partners, but also brick-and-mortar shops, stylists, and fashion bloggers. We believe this model offers lots of benefits to all stakeholders – not least our customers.

In a nutshell: how exactly does the Brand Solutions team enhance the platform?

LANGE: We know the challenges faced by the online fashion market, which are taking on a whole new dimension with the trend towards mobile. We use this knowledge to develop tools that seamlessly integrate our brand partners' operations into our platform. This allows them to focus on their passion. And on what our platform is ultimately about – fashion.

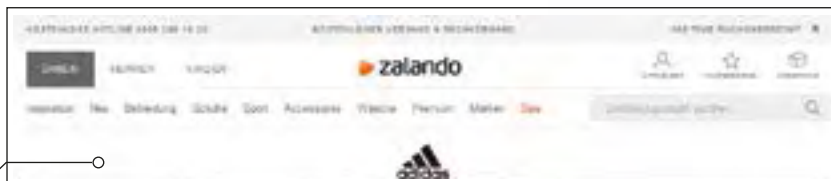


<http://zln.do/1Sc6mbv>



EXCLUSIVE

In brand shops, brands tell their own stories and interact with customers.



NICELY ORGANIZED

Thanks to well thought-out categories, the right product is easy to find.



CLEARLY PRESENTED

The "digital shopfront" gives a quick overview of what's on offer.



INDIVIDUAL
Brands can design their shop just the way they like it.

INSPIRATIONAL

Shopping and more: Consumers get the latest on their favorite brands.





INTERMEDIARY PRODUCTS

ONE PLATFORM – MANY PLAYERS

ZALANDO
MEDIA
SOLUTIONS

WE CONNECT BRANDS
TO CONSUMERS

A WIDE RANGE OF STAKEHOLDERS ARE PART OF OUR INTERMEDIARY PRODUCTS AREA: FOR EXAMPLE, WE WORK WITH LOGISTICS COMPANIES AND SERVICE PROVIDERS TO EFFICIENTLY SERVE OUR EUROPEAN MARKETS, WHILE FREELANCE STYLISTS OFFER OUR CUSTOMERS FASHION ADVICE. THEY ALL HELP TO CREATE BETTER SOLUTIONS FOR OUR CUSTOMERS AND PARTNERS. ZALANDO MEDIA SOLUTIONS ALSO PLAYS A KEY PART IN THIS.

DIGITAL MARKETING EXPERTISE

As well as broadening our reach, our Zalando Shop and mobile applications give us detailed insights into user behavior and purchasing habits. Through analysis of this data, we allow brand owners to display timely and effective ads to their target audiences. At Zalando, they find not just a high-quality fashion environment, but significant experience in digital marketing.



<http://zln.do/1Sc6FDr>

P7



ZALANDO MEDIA SOLUTIONS – INCREASING IMPACT

WE CONNECT BRANDS TO CUSTOMERS: UNDER THIS MOTTO, ZALANDO MEDIA SOLUTIONS BRINGS TOGETHER BRANDS AND CONSUMERS.

As part of our new platform strategy, we have started offering our brand partners tailored marketing products. That gets them in front of their target audiences – not just in our fashion store but also on relevant third party sites, over social media channels and through influencers such as fashion bloggers.

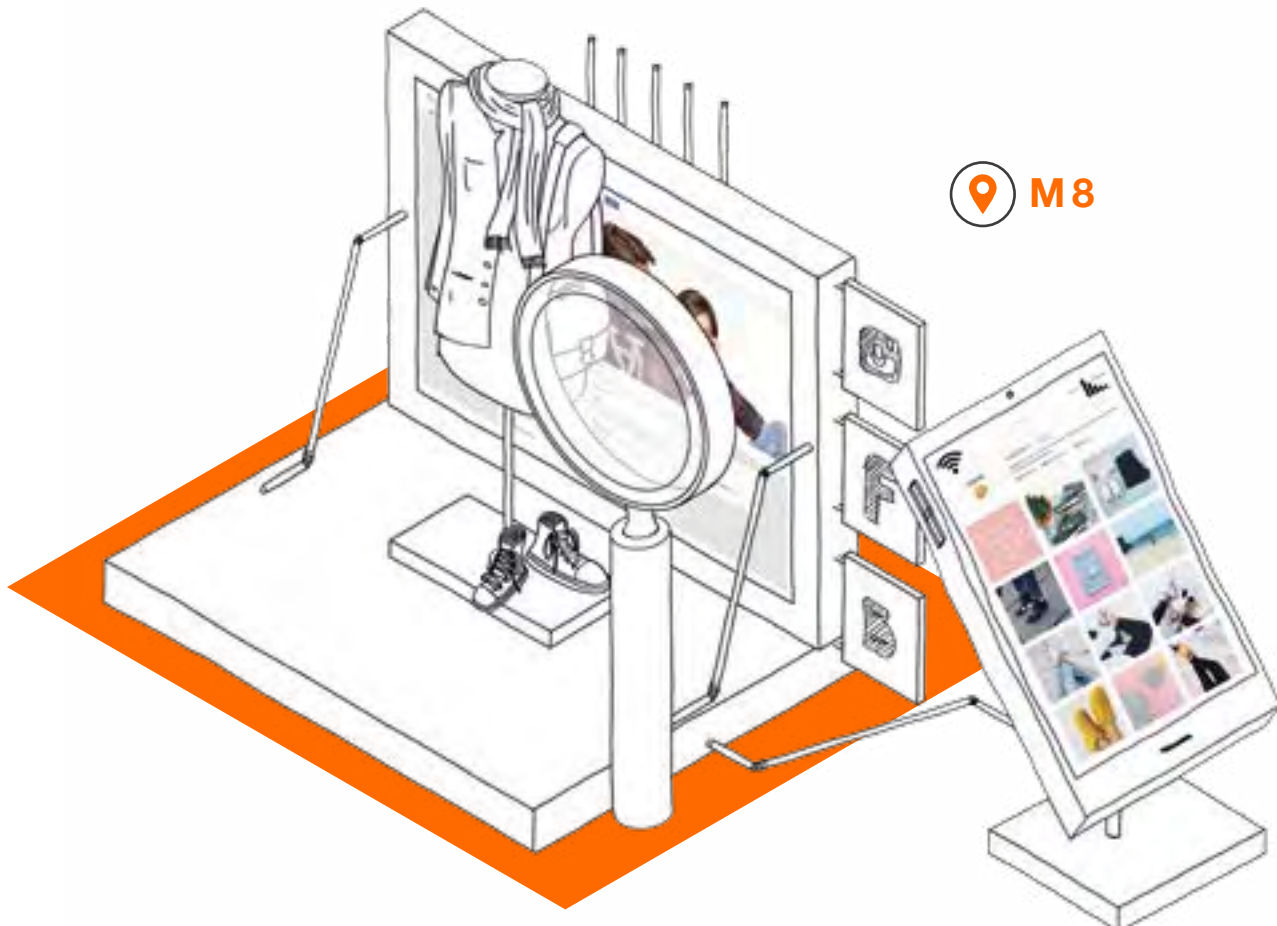
We put together a dedicated Zalando Media Solutions team to take care of this service area after the acquisition of Metrigo GmbH (see 01.8 Highlights 2015, page 80). With the acquisition of nugg.ad GmbH (Closing in January 2016), we further added to our expertise in target group marketing.

We also launched the website mediasolutions.zalando.com. Here, brands can learn how to place their messages and campaigns on our platform most effectively, taking advantage of its wide reach.



“We offer fashion brands the right environment for their marketing messages.”

JÉRÔME COCHET, SVP SALES



OVERVIEW OF THE WEBSITE

EXPERIENCE

Down to the smallest detail: We understand our customers' shopping habits



CREATIVITY

We know how advertising makes our customers' shopping experience even better

FORMAT

We create the right ad product for every client



TIMING

We help brands find the ideal moment for their ad campaigns

REACH

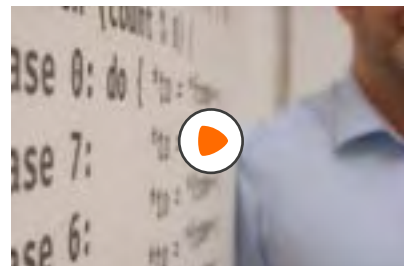
Brands benefit from being present on Europe's largest fashion platform



CORE CAPABILITIES

TECHNOLOGY AS ENABLER

ZALANDO TECHNOLOGY LIES AT THE HEART OF ALL THE PRODUCTS AND SERVICES OFFERED ON OUR PLATFORM AND UNDERPINS ALMOST ALL OF OUR INTERNAL PROCESSES. OVER THE COURSE OF 2015, WE CONTINUED TO CONSOLIDATE OUR POSITIONING AS A DATA-DRIVEN COMPANY.



<http://zln.do/1TKqj5y>



Fun with innovation: During Hack Week, tech staff can pursue their own ideas

We are constantly thinking about the challenges faced by our brand partners, how we can provide them with solutions, and how to keep inspiring customers. Our data analytics capabilities have given us considerable expertise in managing technology, and this also plays a large role in our internal processes. For example, using the information we gather, we can develop applications that allow us to continually optimize our internal processes across all of Zalando's business areas.

 H9



NEW FORMS OF COOPERATION

Technology is in our DNA. This allows us to shape our partners' technological developments, giving them the chance to benefit from our insights. Among other benefits, this helps us make shopping at Zalando easier all the time. But our technology also has a further aim: to **bring together a range of fashion players and business models** and thus make brand new types of cooperation possible. Zalon, Zalando Lounge, and the fashion store are just three examples of channels that we have significantly extended with these kinds of win-win solutions – always focusing on our customers' shopping experience.



FOCUS ON MOBILE FIRST

WE SEE MOBILE COMMERCE AS MORE THAN JUST ANOTHER SALES CHANNEL. RATHER, WE SEE IT AS A WHOLE NEW CONTEXT. WE WANT TO BETTER UNDERSTAND OUR CUSTOMERS AND THEIR NEEDS, AND THEN STRUCTURE THE SHOPPING EXPERIENCE ACCORDINGLY, MAKING IT EVEN MORE INTUITIVE AND PERSONAL.

To take full advantage of these possibilities, and make them available to our customers as a fashion experience, we are evolving into a company that thinks **mobile first** in every way. That's why we made all content in our shop seamlessly available across all devices, allowing our customers to continue their shopping experience without any limitations. This also means that campaigns initially launched on smartphone apps can be viewed on any other device, without any problems. Our apps in particular are conceived, developed and implemented specifically with mobile in mind.



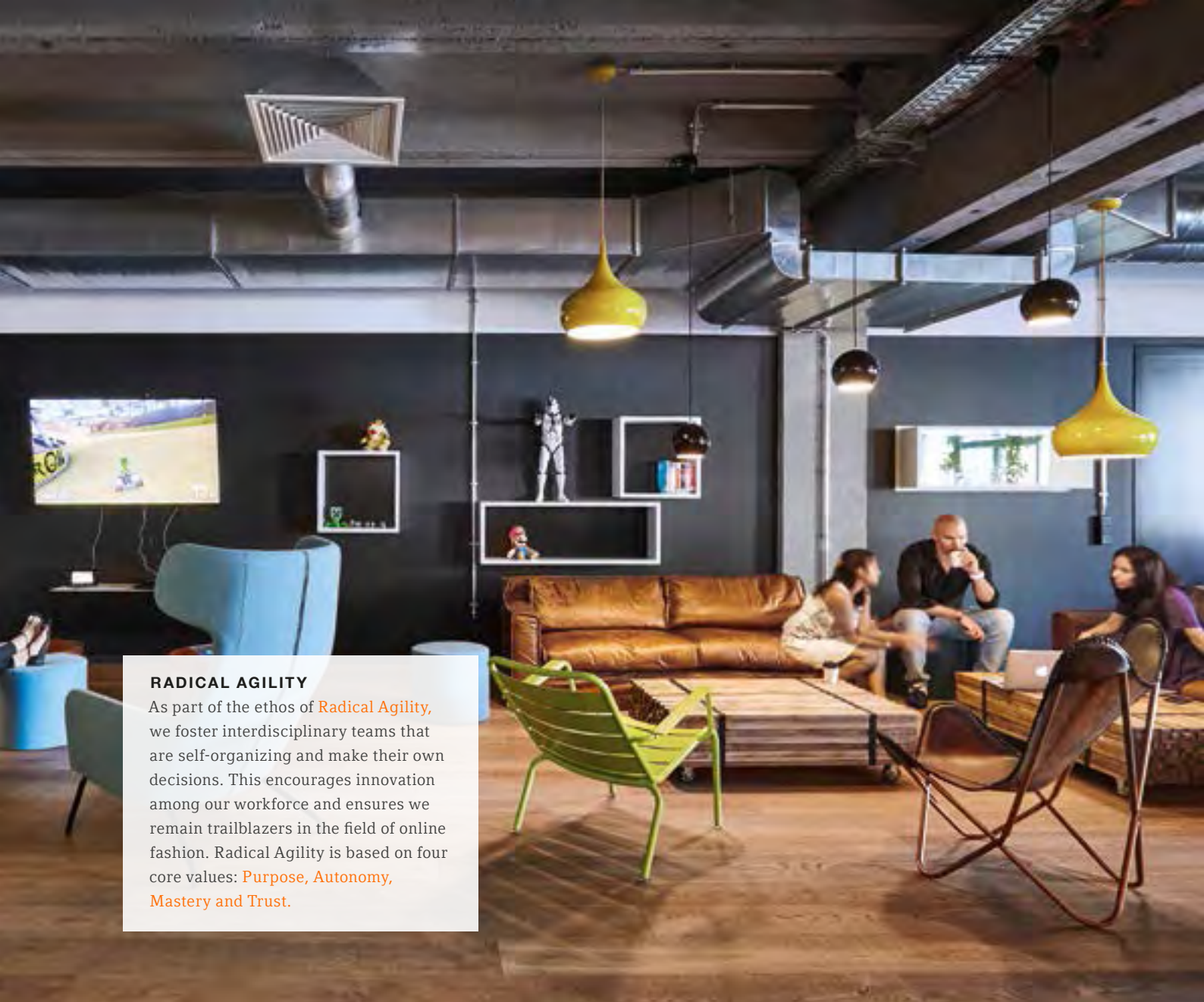
"We are proud of the products that we can push forward piece-by-piece in individual teams."

NUZHAT NAWEED, HEAD OF MOBILE ENGINEERING



EVERYTHING'S EASIER WITH MOBILE SOLUTIONS

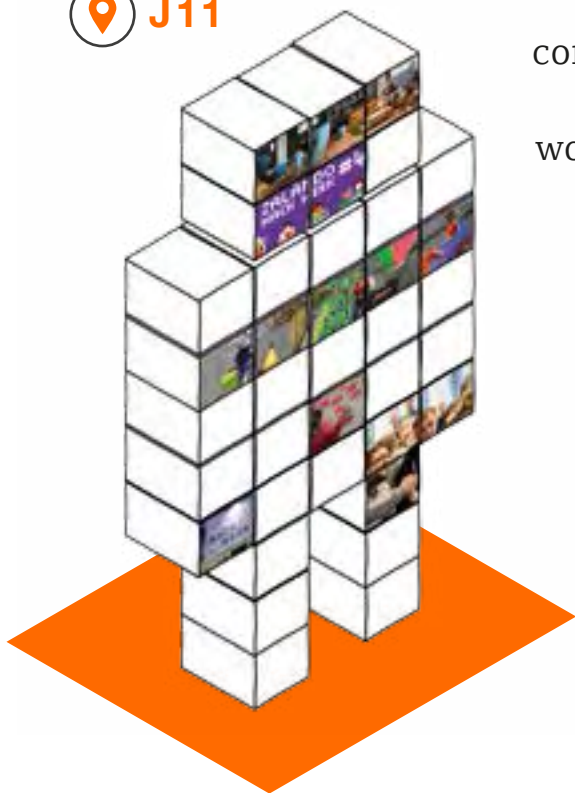
Mobile devices have a wealth of advantages over their desktop counterparts, and give us a range of options to improve customer experience. Built-in functions such as photo search, voice recognition, fingerprint login and GPS make it easier for our customers to use our apps and to shop. Additional payment methods such as Apple Pay (UK) make the shopping process even easier. Likewise, brand and marketing partners, along with bloggers and stylists, can use our platform to create deeper connections with their consumers and make their services and content easier to access. All of this makes shopping with Zalando easier, more exciting, and more emotionally satisfying. To be the European leader in the sector, we have made considerable investments in our mobile capabilities and fully committed our teams to the concept of *Radical Agility*.



RADICAL AGILITY

As part of the ethos of **Radical Agility**, we foster interdisciplinary teams that are self-organizing and make their own decisions. This encourages innovation among our workforce and ensures we remain trailblazers in the field of online fashion. Radical Agility is based on four core values: **Purpose, Autonomy, Mastery and Trust.**

J11



“We want to become THE European tech company. And to ensure we remain flexible and innovative despite our growing size, we’re working along the principles of Radical Agility.”

PHILIPP ERLER, SVP TECHNOLOGY

DAILY COMPANION: THE ZALANDO APP

Most of our users and customers access our products and services on their mobile devices numerous times every day. This makes our apps increasingly important. Since **relaunching the Zalando app** in December 2015, we have sought to inspire our customers and become part of their daily lives. Bigger image formats, brand look books, videos, content specifically created for the app, and push notifications announcing delivery, help create an elegant, simple and very much mobile shopping experience. This is increasingly turning the app into the gateway to premium fashion that’s always open.

ANOTHER STEP TOWARDS EUROPE

LOGISTICS UNDERLIE ALL OF ZALANDO'S PHYSICAL PROCESSES AND ARE AN INTEGRAL PART OF OUR **CORE CAPABILITIES**. WE SPOKE WITH DAVID SCHRÖDER, SVP OPERATIONS, AND CHRISTOPH STARK, VP LOGISTICS, TO FIND OUT WHAT KEEPS ZALANDO MOVING.

What were the major developments in Zalando's logistics in 2015?

SCHRÖDER: In logistics, we are currently focusing on the trend towards faster deliveries, easier returns and a greater variety of delivery and return options. The trend is not exactly new, but is set to have a big impact over the next few years.

STARK: Especially with regards to delivery speeds, quite a lot has already happened in 2015. One example is our test run for Same Day Delivery, which lets customers receive their goods on the day they order them.

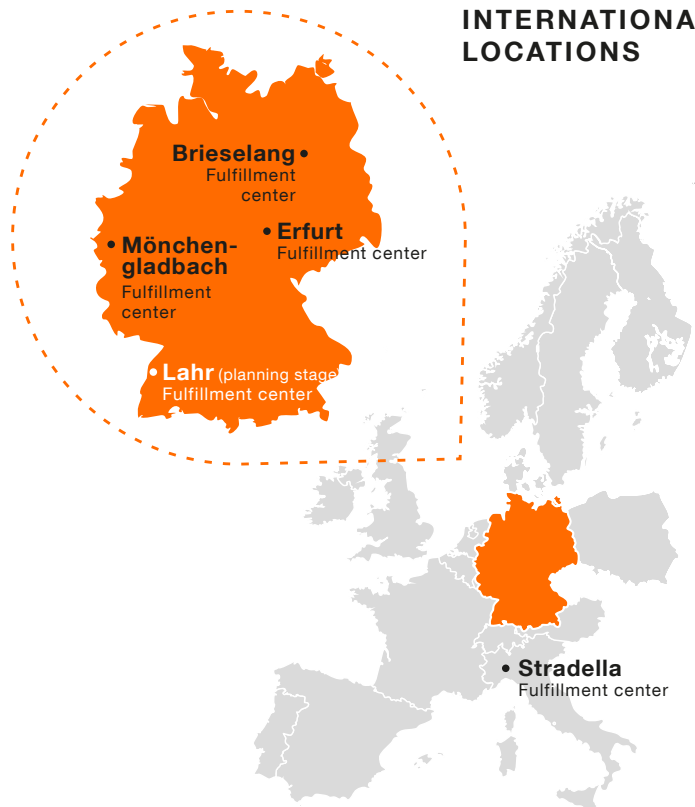
Are there any other projects in the pipeline?

SCHRÖDER: Our pilot program for Instant Returns leads the way too. Our customers in Amsterdam and London were given the chance to have their returns picked up from a location of their choice within 60 minutes. Using test runs like this, we get a detailed picture of the feasibility of these kinds of innovations for returns.

STARK: At the same time, we analyze how faster delivery speeds affect our logistics network. One consequence is that we will be getting closer to our customers with our sites abroad, as well...

SCHRÖDER: ...and that our logistics network is becoming increasingly international.

INTERNATIONAL LOCATIONS



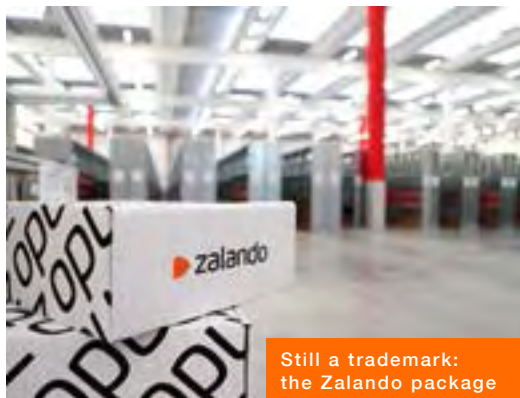
Do the new logistics hubs in southern Germany and northern Italy represent a further step towards European expansion?

STARK: Yes, because our new site in Lahr will not just benefit customers in southern Germany, but also in France and especially in Switzerland. And our first international logistics hub, run by a service partner near Milan, means that we can serve our Italian customers faster than ever before.

SCHRÖDER: And there are other areas that demonstrate our focus on Europe. Just one example for our customer focus: these days, almost all of our European customers get their returns slip inside their parcel. In the long term, we want to ensure that none of our customers need a printer, scissors or masking tape for returns. We have also been running local returns centers with partners in many of our markets, ensuring that customers get their money back as quickly as possible.



With new locations, Zalando is expanding its European logistics network



Still a trademark:
the Zalando package

How do logistics fit into Zalando's new platform strategy?

STARK: Because goods will always need to be transported from A to B, of course logistics is of central importance to Zalando. But it also increasingly something that distinguishes you from the rest of the pack. Especially when you successfully do it yourself. Whenever we think about how to make Zalando customers even happier, we automatically think about logistical processes, too.

SCHRÖDER: We are also looking to offer our services to third parties as part of the Zalando platform strategy. Which brings us to *Smart Logistics*. In each of our operational areas⁷, we will be working with strong partners much more than we have in the past. Centrally coordinating and managing this highly complex fashion network with our IT, and developing a toolbox which will benefit all of our platform partners, and thus ultimately our consumers – that's our task right now.

Let's gaze into the crystal ball for a minute: what will Zalando's logistics division look like in 2020?

STARK: Operations at our logistics hubs will remain essentially unchanged. But if I imagine the Zalando map in 2020, our logistics network will have extended into many different European countries.

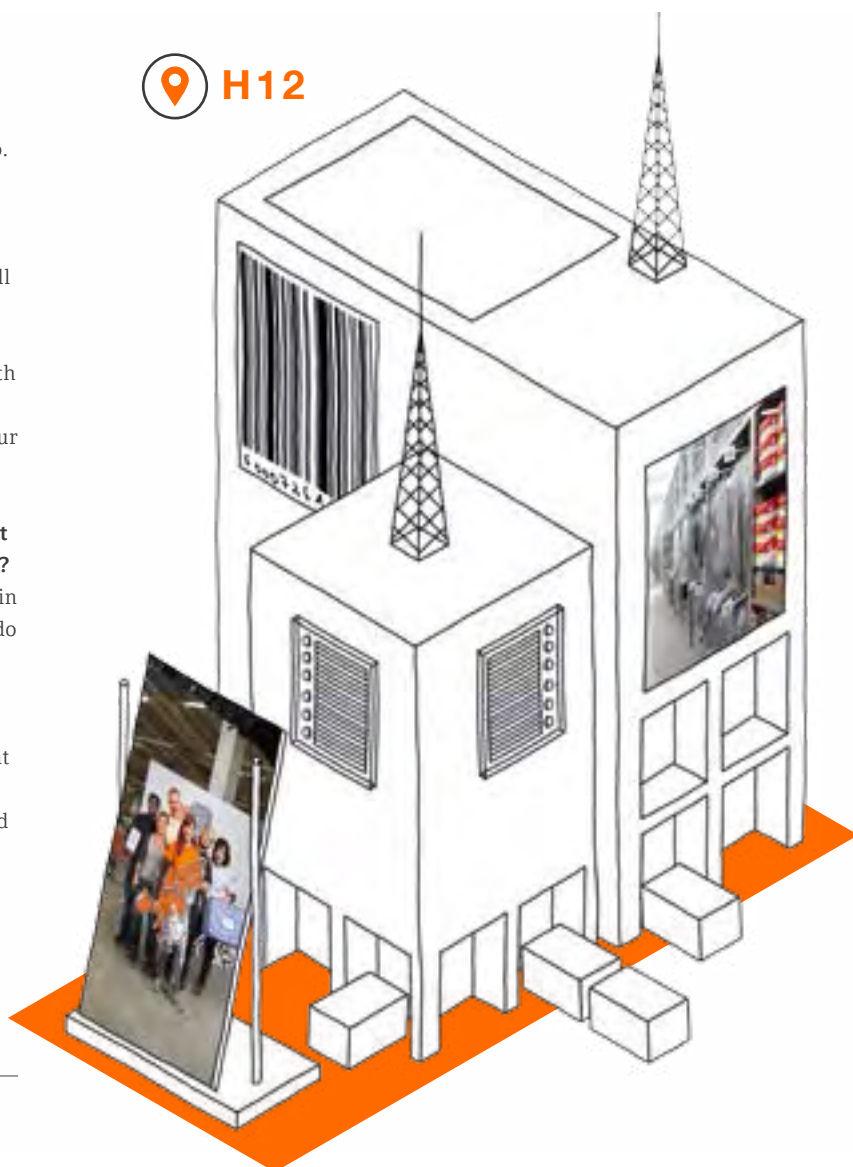
SCHRÖDER: Our customers are living increasingly free and flexible lives, and we want to ensure that the Zalando package adapts to their lives. Zalando will let everyone decide exactly when, where and how they want their fashion.



For the best possible shopping experience, logistics are crucial



H12



7) Logistics, Customer Care, Content Creation, Payments



FURTHER INFORMATION
THE ZALANDO SHARE –
2015 IN REVIEW P. 60

DEAR SHAREHOLDERS,

FISCAL YEAR 2015 WAS A SUCCESSFUL ONE FOR ZALANDO. THE COMPANY SUCCESSFULLY CONTINUED ON ITS GROWTH TRAJECTORY. IN FISCAL YEAR 2015, ZALANDO GENERATED REVENUE OF ALMOST EUR 3BN AND CONTINUED TO GROW ITS OPERATING BUSINESS, RETURNING AN EBIT MARGIN OF 3.0%.

At the end of the year, Zalando had approximately 10,000 employees. The reporting year saw the company being admitted to the MDAX and two foreign locations being established to focus on software development. Moreover, the go-ahead was given for construction of the Zalando Campus for roughly 5,000 employees at headquarters in Berlin and the foundation laid for further expansion and internationalization of the fulfillment network.

The Supervisory Board would like to thank all employees of the company for their high level of commitment and their personal contribution to [the great successes of the company in fiscal year 2015](#). The members of the Supervisory Board would like to thank the Management Board for their commitment to the business and the fruitful cooperation during the year. The Supervisory Board is grateful to the shareholders for the support they have given and the continuing interest they take in Zalando.

PERSONNEL MATTERS

The term of the first Supervisory Board of the SE ended during the reporting year upon the conclusion of the annual general meeting on June 2, 2015. The annual general meeting thus appointed new members to the Supervisory Board.

The annual general meeting confirmed the appointment of all [shareholder representatives](#)

- Cristina Stenbeck
- Lorenzo Grabau
- Lothar Lanz
- Anders Holch Povlsen
- Kai-Uwe Ricke and
- Alexander Samwer

and appointed them to the Supervisory Board of the company for a period ending upon conclusion of the annual general meeting that discharges them for fiscal year 2016. Moreover the meeting adopted the proposal of the employees to [appoint the employees' representatives](#)

- Beate Siert
- Dylan Ross and
- Konrad Schäfers

as new members of the Supervisory Board as well as their deputies, Yvonne Jamal, Christine de Wendel and Clemens Kress, for a period ending upon conclusion of the annual general meeting that discharges them for fiscal year 2019.

At the constituent meeting of the Supervisory Board held immediately after the annual general meeting on June 2, 2015, Cristina Stenbeck was appointed chairperson of the board and Lorenzo Grabau was elected her deputy. The Supervisory Board agreed that the committees that have already been established, namely, the audit committee, the remuneration committee and the



The Supervisory Board – from left to right:

Lorenzo Grabau Deputy chairperson of the Supervisory Board, member of the audit committee, chairman of the remuneration committee, **Kai-Uwe Ricke** Member of the Supervisory Board, deputy chairperson of the audit committee, **Dylan Ross** Member of the Supervisory Board, **Beate Siert** Member of the Supervisory Board, member of the remuneration committee, **Lothar Lanz** Member of the Supervisory Board, chairperson of the audit committee, **Cristina Stenbeck** Chairperson of the Supervisory Board, member of the remuneration committee, chairperson of the nomination committee, **Konrad Schäfers** Member of the Supervisory Board, member of the audit committee, **Alexander Samwer** Member of the Supervisory Board, member of the remuneration committee, member of the nomination committee, **Anders Holch Povlsen** Member of the Supervisory Board, member of the nomination committee

nomination committee, will be retained. A resolution appointing the members to these committees was passed at the constituent meeting of the Supervisory Board as follows:

The Supervisory Board appointed Lothar Lanz, Kai-Uwe Ricke, Lorenzo Grabau and Konrad Schäfers to the audit committee. Lothar Lanz was elected chairperson and Kai-Uwe Ricke was elected deputy chairperson.

Furthermore, the Supervisory Board appointed Lorenzo Grabau, Alexander Samwer, Beate Siert and Cristina Stenbeck to the remuneration committee. Lorenzo Grabau was elected chairperson of the remuneration committee.

Cristina Stenbeck, Anders Holch Povlsen and Alexander Samwer were appointed to the nomination committee. Cristina Stenbeck was elected chairperson of the nomination committee.

THE WORK OF THE SUPERVISORY BOARD

CONSULTATION AND MONITORING

The Supervisory Board duly performed the duties required of it by the law, the Articles of Association, the Rules of Procedure and the German Corporate Governance Code. It received regular and detailed reports on the intended business policies, any fundamental issues regarding financial, investment, and personnel planning, the progress of the business, including the profitability of the company. In particular, the Management Board consulted the Supervisory Board on the group's strategy. The Supervisory Board was directly involved in all material decisions. Transactions requiring approval were presented by the Management Board and



FURTHER INFORMATION
CORPORATE GOVERNANCE
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discussed before decisions were taken. The discussions took place at the meetings of the plenum of the Supervisory Board and its committees as well as through contacts with the Management Board outside of the scheduled meetings.

The Supervisory Board is satisfied that the Management Board has established an **effective risk management** system capable of recognizing at an early stage any developments that could jeopardize the existence of the company. This assessment has been certified by the auditor. Furthermore, the Supervisory Board is satisfied with the continued expansion and effectiveness of the compliance program, which guarantees compliance with the law and with internal guidelines.

Outside the meetings and without the participation of the Management Board, the chairperson of the audit committee held detailed discussions with the auditor on topics relating to the audit.

The chairperson of the Supervisory Board was also in regular contact with the Management Board outside the scheduled meetings.

MEETINGS OF THE SUPERVISORY BOARD AND ITS COMMITTEES

The plenum of the Supervisory Board held five meetings in fiscal year 2015. The audit committee also held five meetings, the remuneration committee three and the nomination committee held one meeting.

The plenum of the Supervisory Board was informed about the results of meetings of the committees at its subsequent meetings.

Cristina Stenbeck was prevented from attending a scheduled date in August 2015 and thus was not able to attend the plenary meeting of the board and a meeting of a committee held on this date. The other members attended all meetings of the full board and their respective committee meetings.

The plenum of the Supervisory Board addressed, among other items, the adoption of the financial statements for 2014, the approval of the consolidated financial statements for 2014, the analysis and discussion of the management report on the course of business, the first annual general meeting of the company after going public, ratification of the budget for fiscal year 2016, and resolutions on the latest corporate governance issues, including the declaration of compliance with the German Corporate Governance Code and a review of the efficiency of its own work.

Based on the law and the requirements laid down in the Articles of Association and the Management Board's rules of procedure, certain transactions and measures require the prior approval of the Supervisory Board. Before granting its approval, the Supervisory Board addressed, among other issues, the introduction of a new employee incentive program, the creation and expansion of the fulfillment network, the extension of the reverse factoring arrangement, and the construction of the Zalando Campus at Zalando's headquarters in Berlin.

The **audit committee** analyzed the annual financial statements 2014 and the consolidated financial statements 2014 including the combined management report for 2014, as well as the quarterly reports for the first three months, six months and nine months of 2015. The committee also discussed the focus of the audit, the status reports on GRC (Governance, Risk & Compliance) as well as any litigation and the work of the internal audit. The audit committee was also involved with the preparation of the Supervisory Board's proposal to the annual general meeting 2015 for the appointment of the auditor and group auditor. The chairperson of the audit committee conferred with the auditors on the audit focus.

The **remuneration committee** addressed the preparations for a new employee incentive program and a review of Management Board performance.

The main task of the **nomination committee** was to prepare the proposals of the Supervisory Board to the annual general meeting regarding the election of the shareholder representatives to the Supervisory Board.

No conflicts of interest of any Supervisory Board member occurred in the context of the work of the Supervisory Board.

CORPORATE GOVERNANCE

The declaration of conformity regarding the reporting year was issued by the Management Board and the Supervisory Board on November 10, 2015. The complete text of the declaration can be found in section 01.5 on page 44. The declarations are made permanently available under the section on corporate governance on the company's website.

More information on corporate governance can be found in the **corporate governance report** and associated declaration on page 44. With regard to the remuneration structure for the members of the Management Board for fiscal year 2015 and to avoid repetition, please see the comments in the remuneration report on page 54.

AUDIT AND RATIFICATION OF THE ANNUAL FINANCIAL STATEMENTS AND CONSOLIDATED FINANCIAL STATEMENTS

The Management Board forwarded the annual financial statements and the consolidated financial statements for fiscal year 2015 to the chairperson of the Supervisory Board and the chairperson of the audit committee immediately upon their completion in February 2016 and before they were finally attested. The annual financial statements for 2015 and the consolidated financial statements for 2015 as well as the combined management report for the company and the group were examined by the auditor who rendered an unqualified audit opinion on them.

The financial statements and the auditor's reports were sent to the members of the Supervisory Board.

In a first step, the audit committee closely examined the financial statements in the presence of the auditor. The auditor reported on the most significant matters of the audit. Thereafter, the Supervisory Board discussed the financial statements in detail.

The Supervisory Board approved the audit results. It examined the annual financial statements and consolidated financial statements and the combined management report for ZALANDO SE and the group. The findings of the preliminary audit conducted by the audit committee and the Board's own findings corroborate the findings of the external auditor. Based on this final review the Supervisory Board raised no objections to the audit. The Supervisory Board has therefore **approved and adopted the annual financial statements for 2015 and approved the consolidated financial statements 2015**.

The appointments to the Supervisory Board of Benjamin Krümel, Dr. Christoph Stark and Christine de Wendel, all of whom are employee representatives, all reached the end of their term in the reporting period. The Supervisory Board would like to thank them for their valuable contributions to the work of the Board.

Berlin, February 29, 2016

Cristina Stenbeck



[CORPORATE.ZALANDO.COM/CG](https://corporate.zalando.com/cg)



FURTHER INFORMATION
CORPORATE GOVERNANCE
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FURTHER INFORMATION
CONSOLIDATED FINANCIAL
STATEMENTS P. 130

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.

01 CURRENT AND PAST SEATS

NAME OF SUPERVISORY BOARD MEMBER	PROFESSION	MANDATES PURSUANT TO SECTION 125 (1) SENTENCE 5 AKTG
Cristina Stenbeck	Executive Chairman of the Board of Directors of Investment AB Kinnevik	Investment AB Kinnevik, Sweden (Member of the Board of Directors, Chairman) Millicom International Cellular, Luxembourg (Member of the Board of Directors, Chairman) Verdere SARL, Luxembourg (Member of the Board of Directors, Chairman)
Lorenzo Grabau	Chief Executive Officer of Investment AB Kinnevik	Rocket Internet SE, Berlin (Member of the Supervisory Board) Qliro Group AB, Sweden (Member of the Board of Directors) Millicom International Cellular S.A., Luxembourg (Member of the Board of Directors) Tele2 AB, Sweden (Member of the Board of Directors) Avito Holding AB, Sweden (Member of the Board of Directors, Chairman until Dec 2015) Global Fashion Holding S.A., Luxembourg (Member of the Board of Directors, Chairman) Lazada Group S.A., Luxembourg (Member of the Board of Directors, Chairman)
Lothar Lanz	Member of Supervisory Boards including Axel Springer SE and TAG Immobilien AG	Axel Springer SE (Member of the Supervisory Board) Bauwert AG (Member of the Supervisory Board, Chairman) Dogan TV Holding A.S. (Member of the Board of Directors) Home24 AG (Member of the Supervisory Board, Chairman) TAG Immobilien AG (Member of the Supervisory Board)
Anders Holch Povlsen *	Chief Executive Officer of the Bestseller group	Intervare A/S 25169158, Denmark (Member of the Board of Directors, Chairman) Nemlig.com A/S, Denmark (Member of the Board of Directors, Chairman) J.Lindeberg AB 556533-7085, Sweden (Member of the Board of Directors) J.Lindeberg Holding AB, Sweden (Member of the Board of Directors) J.Lindeberg IP HK Limited, Hong Kong (Member of the Board of Directors) J.Lindeberg Holding (Singapore) Pte. Ltd., Singapore (Member of the Board of Directors) JL Schweiz AG, Switzerland (Member of the Board of Directors, Chairman)

02

NAME OF SUPERVISORY BOARD MEMBER	PROFESSION	MANDATES PURSUANT TO SECTION 125 (1) SENTENCE 5 AKTG
Kai-Uwe Ricke	Chairman, Board of Directors of Delta Partners	<p>United Internet AG, Montabaur (Member of the Supervisory Board)</p> <p><i>Mandates in affiliated companies:</i></p> <p>United Internet Ventures AG, Montabaur (Member of the Supervisory Board)</p> <p>United Internet Service SE, Montabaur (Member of the Supervisory Board until Mar 16, 2015)</p> <p>1&1 Internet AG, Montabaur (Member of the Supervisory Board until June 11, 2015)</p> <p>1&1 Internet SE, Montabaur (Member of the Supervisory Board)</p> <p>1&1 Telecommunication AG, Montabaur (Member of the Supervisory Board, Deputy Chairman until Apr 30, 2015)</p> <p>1&1 Telecommunication SE, Montabaur (Member of the Supervisory Board)</p> <p>GMX&WEB.DE Mail & Media SE, Montabaur (Member of the Supervisory Board until Jul 14, 2015)</p> <p>1&1 Mail & Media Application SE, Montabaur (Member of the Supervisory Board until Mar 16, 2015; Deputy Chairman since Jul 22, 2015)</p> <p>euNetworks Group Ltd, Singapore (Member of the Board of Directors)</p> <p>Delta Partners, Dubai (Member of the Board of Directors, Chairman)</p> <p>SUSI Partners AG, Switzerland (Member of the Board of Directors, Chairman since Aug 28, 2015)</p> <p>Virgin Mobile CEE, Netherlands (Member of the Board of Directors)</p>
Alexander Samwer	Independent internet entrepreneur	–
Beate Siert	Employee of ZALANDO SE (Affiliate Marketing)	–
Dylan Ross	Employee of ZALANDO SE (Category Management)	–
Konrad Schäfers	Employee of ZALANDO SE (Corporate Finance)	–

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

01.5 CORPORATE GOVERNANCE REPORT

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

01.5.1 DECLARATION OF CONFORMITY ⁸

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

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

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

- **No. 3.8 para. 3:** According to the Code's recommendations, a deductible shall be agreed upon for the members of the Supervisory Board when taking out D&O policy. The Company takes the view that such a deductible is not in itself suitable to increase the performance and sense of responsibility of the Supervisory Board members. Furthermore, it reduces the attractiveness of Supervisory Board positions and thus the Company's opportunities in its competition for qualified Supervisory Board candidates.
- **No. 4.2.1 sentence 1:** According to the Code's recommendations, the Management Board shall have a chairman or spokesman. So far the three members of the Management Board of Zalando SE have worked together on an equal footing without any member performing the function of the chairman or spokesman. The Supervisory Board cannot see any reason why it should change this established and successful cooperation.
- **No. 4.2.3 para. 2 sentences 4, 6 and 7:** According to the Code's recommendations, both positive and negative developments shall be taken into account when determining variable components of the compensation paid to members of the Management Board. The amount of compensation shall be capped, both overall and for the variable compensation components, and the variable compensation components shall be related to demanding, relevant comparison parameters. The current compensation system for the Management Board provides for a share option scheme as the variable component of the Management Board compensation, which was assessed to be appropriate by an independent compensation consultant.

⁸⁾ The declaration of conformity is an unaudited part of the combined management report

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

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

- **Nos. 4.2.4 and 4.2.5:** According to the Code's recommendations, the compensation of the members of the Management Board shall be disclosed by name, divided into fixed and variable components as well as fringe benefits. These recommendations are not complied with because the General Meeting of ZALANDO SE resolved on 11 July 2014 in accordance with sections 286 (5), 314 (2) sentence 2, 315a (1) HGB (German Commercial Code) in connection with article 61 of the SE Regulation that the compensation of the members of the Management Board shall not be disclosed by name in the annual and consolidated financial statements of ZALANDO SE to be prepared for fiscal years 2014 up to (and including) 2018. For the duration of a corresponding "opt-out" resolution passed by the General Meeting, the Company will abstain from including in the compensation report the disclosures recommended under No. 4.2.5 para. 3 of the Code.
- **No. 5.4.5 sentence 2:** According to the Code's recommendations, members of the management board of a listed company shall not accept more than a total of three supervisory board mandates in non-group listed companies or in supervisory bodies of non-group companies which make similar requirements. One of the members of the Supervisory Board of ZALANDO SE is the CEO of a foreign listed company and currently at the same time has accepted more than three mandates in Supervisory Boards of non-group listed companies or in supervisory bodies of non-group companies which make similar requirements. However, ZALANDO SE does not consider this to be a limitation of the proper fulfilment of the Supervisory Board member's responsibilities as the Supervisory Board member has sufficient time to perform his mandate at ZALANDO SE. Since it is not sufficiently clear whether No. 5.4.5 sentence 2 of the Code also applies to Management Boards of foreign listed companies, we declare, for reasons of precaution, a deviation.

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



01.5.2 CORPORATE GOVERNANCE

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

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

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



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

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

01.5.3 MANAGEMENT BOARD AND SUPERVISORY BOARD PROCEDURES

MANAGEMENT BOARD PROCEDURES

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

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

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

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

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

SUPERVISORY BOARD PROCEDURES

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

MEMBERS OF THE SUPERVISORY BOARD IN FISCAL YEAR 2015 WERE

03 SUPERVISORY BOARD

Cristina Stenbeck (since Feb 10, 2014)

Lorenzo Grabau (since Dec 12, 2013)

Lothar Lanz (since Feb 10, 2014)

Kai-Uwe Ricke (since June 3, 2014)

Alexander Samwer (since Dec 12, 2013)

Anders Holch Povlsen (since Dec 12, 2013)

Benjamin Krümel (until June 2, 2015)

Dr. Christoph Stark (until June 2, 2015)

Christine de Wendel (until June 2, 2015)

Konrad Schäfers (since June 2, 2015)

Dylan Ross (since June 2, 2015)

Beate Siert (since June 2, 2015)

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

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

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

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

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

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

AUDIT COMMITTEE

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

04 AUDIT COMMITTEE

Lothar Lanz (Chairperson of the audit committee)

Kai-Uwe Rieke (Deputy chairperson of the audit committee)

Lorenzo Grabau

Konrad Schäfers (since June 2, 2015)

Dr. Christoph Stark (until June 2, 2015)

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

REMUNERATION COMMITTEE

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

05 REMUNERATION COMMITTEE

Lorenzo Grabau (Chairperson of the remuneration committee)

Alexander Samwer

Beate Siert (since June 2, 2015)

Cristina Stenbeck

Christine de Wendel (until June 2, 2015)

NOMINATION COMMITTEE

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

06 NOMINATION COMMITTEE

Cristina Stenbeck (Chairperson of the nomination committee)

Anders Holch Povlsen

Alexander Samwer

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

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

01.5.5 MANAGEMENT BOARD AND SUPERVISORY BOARD SHAREHOLDINGS

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

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



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01.5.6 TAKEOVER LAW DISCLOSURES PURSUANT TO SECTIONS 289 (4), 315 (4) HGB⁹

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

COMPOSITION OF ISSUED CAPITAL

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

RESTRICTIONS RELATING TO THE VOTING RIGHTS OR THE TRANSFER OF SHARES

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

SHAREHOLDINGS THAT EXCEED 10% OF THE VOTING RIGHTS

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

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

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

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

⁹⁾ Takeover law disclosures pursuant to Secs. 289 (4), 315 (4) HGB are part of the combined management report and also form part of the corporate governance report with the declaration of conformity

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

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

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

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

the authorization granted by the annual general meeting on June 2, 2015. The Management Board is authorized, subject to the approval of the Supervisory Board, to determine further details concerning the performance of the capital increase and the content of the respective share rights and the conditions of share issue. The Supervisory Board is authorized to amend the Articles of Association based on the performance of the increase in share capital or once the period of authorization expires.

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

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

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

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

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

01.5.7 REMUNERATION REPORT ¹⁰

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

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

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

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

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

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

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

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

SHARE-BASED PAYMENTS (LONG-TERM INCENTIVES)

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

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

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

¹⁰⁾ This remuneration report is part of the combined management report and also forms a component of the corporate governance report with the declaration of conformity

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

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

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

07 DEVELOPMENT OPTIONS 2011

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

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

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

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

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

08 DEVELOPMENT OPTIONS 2013

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

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

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

OTHER NOTES

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

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

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

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

TOTAL COMPENSATION

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

09 BENEFITS GRANTED

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

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

10 ALLOCATION

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

*) Exercise of options

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

REMUNERATION OF SUPERVISORY BOARD MEMBERS

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

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

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

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

11 SUPERVISORY BOARD REMUNERATION

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



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01.6 THE ZALANDO SHARE – 2015 IN REVIEW

- Share price increase of 42.2% in fiscal year 2015
- Increase of free float from 10.0% to 37.2% at year-end
- Inclusion in MDAX, MSCI Germany Index and STOXX Europe 600
- Successful first annual general meeting on June 2, 2015

01.6.1 SHARE AND CAPITAL MARKETS DEVELOPMENT

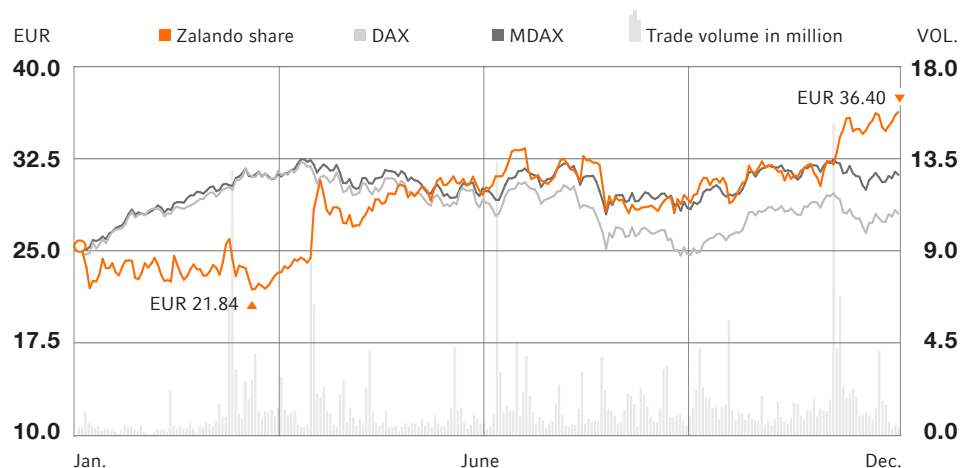
Capital markets in 2015 were mainly influenced by the expansionary monetary policy of the European Central Bank and growing concerns about the economy. Mainly in the first half of the year hope for further tailwind from monetary policy drove indices in the Euro zone upwards. In mid-2015 the Greece crisis and, from the second half of the year onwards, economic concerns about China and the Eurozone caused strong volatility.

Zalando shares showed only limited movement at the beginning of the year (opening price January 2, 2015: EUR 25.60), but came under pressure in mid-March when a few pre-IPO shareholders sold a portion of their shares. With the releases of positive preliminary Q1 and Q2-results the share price increased strongly during the first half of the year. Following volatile capital markets during late summer and the publication of preliminary Q3 results the share price fell temporarily, but recovered in the last months of the year. At year-end the Zalando share closed at an all-time high of EUR 36.40, or 42.2% higher than at the start of the year. The Zalando share significantly **outperformed the DAX (+8.9%) and the MDAX (+22.2%)**. The market capitalization at year-end was EUR 9.0bn (basic). The average daily trading volume during the year was 1.42m shares or EUR 40.8m.

42.2%

SHARE PRICE PERFORMANCE
IN FISCAL YEAR 2015

01 DEVELOPMENT OF THE ZALANDO SHARES, DAX AND MDAX IN THE PERIOD JAN 1, 2015–DEC 31, 2015



*] Based on trading on XETRA, German stock exchanges, electronic communication networks ("ECNs") and over-the-counter ("OTC") trading
Source: Bloomberg

12 THE ZALANDO SHARE

Type of shares	Ordinary bearer shares with no par value ("Stückaktien")
Share capital	EUR 247,059,518
Total numbers of shares outstanding (Dec 31, 2015)	247,059,518
ISIN	DE000ZAL1111
WKN	ZAL111
Bloomberg	ZAL GR
Thomson Reuters	ZALG.F

SIGNIFICANT INCREASE OF FREE FLOAT

The **shareholder structure changed significantly** during the year, with a strong shift towards a higher free float. It represented 10% of the issued shares at the beginning of the year, reflecting the shares issued at IPO, and increased to 37.24% at the end of the year.

In March, pre-IPO shareholders Global Founders GmbH, Holtzbrinck Ventures, Access Industries (Len Blavatnik) and Rocket Internet as well as parts of the Zalando management placed 17.9m shares through an accelerated bookbuild offering (ABO). All sellers plus Kinnevik, Best-seller as well as the two founders, David Schneider and Robert Gentz, agreed to an extension of the lock-up period until June 28, 2015 (representing 64% of the share capital) thereby demonstrating their support for Zalando. In another ABO in early July 2015 Holtzbrinck Ventures and Access Industries placed a further 8.3m shares (with an extension of their lock-up period until August 10, 2015). Following the placement of shares of Access Industries and Holtzbrinck Ventures their ownership fell below the 3% threshold, so their shares have since then been counted as free float. With the expiration of both lock-ups all shares outstanding have been freely tradable since August 10, 2015.

In addition, **pre-IPO shareholders further reduced their shares** in regular trading. DST Europe (Yuri Milner) sold some shares according to voting rights announcements on July 24, 2015 and September 8, 2015, such that its ownership share fell from 7.10% at the beginning of the year to 2.96% in September (since then also counted as free float). Baillie Gifford & Co, shareholder since the IPO, exceeded the threshold of 3% (3.08% according to voting rights announcement of November 10, 2015), not contributing to free float since then. After the ABO in March the share of Global Founders GmbH amounted to 11.18%, which in November was further reduced to 9.91% (according to a voting rights announcement on November 26, 2015).

13 SHARE PERFORMANCE

Opening price on Jan 2, 2015	EUR 25.60
High 2015 (Dec 30)	EUR 36.40
Low 2015 (March 18)	EUR 21.84
Closing price on Dec 31, 2015	EUR 36.40
Performance 2015	+42.2%
Average daily trading volume 2015 (shares) *	1.4m
Average daily trading volume 2015 (EUR) *	EUR 40.8m

*} Based on trading on XETRA, German stock exchanges, electronic communication networks ("ECNs") and over-the-counter ("OTC") trading



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JUNE 19, 2015

INCLUSION MDAX

INDEX INCLUSIONS

The increasing share price, coupled with a significant increase in free float resulted in higher trading volumes and higher free-float market capitalization, both important indicators for index inclusion decisions. As a result Zalando joined the MDAX index of German mid-cap stocks on June 19, 2015 post stock market closing, having already joined the SDAX index of German small-caps already on December 22, 2014. The MDAX is the Deutsche Börse index which comprises the 50 largest listed companies in Germany after those in the DAX. Through the admission to the MDAX **Zalando joins the league of the 80 most important publicly listed companies in Germany**. During the year Zalando also joined the international MSCI Germany Index (December 1, 2015) and the European STOXX 600 (December 21, 2015). Through admission to these indices Zalando gained increased visibility in capital markets and is now also in increased demand by index funds.

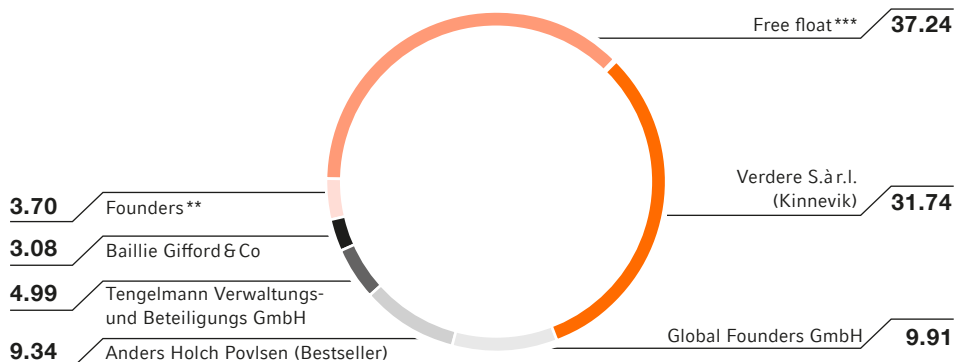
SUCCESSFUL FIRST ANNUAL GENERAL MEETING

On June 2, 2015 ZALANDO SE hosted its **first annual general meeting** ("AGM") post IPO at the Tempodrom in Berlin. Those in attendance, representing 90.9% of the voting share capital, approved all the proposed resolutions put forward by the Company's Management Board and Supervisory Board with a large majority. Resolutions included the election of the Supervisory Board members. The AGM re-elected Cristina Stenbeck, Lorenzo Grabau, Lothar Lanz, Anders Holch Povlsen, Kai-Uwe Rieke and Alexander Samwer to the Supervisory Board and appointed the employee representatives Beate Siert, Dylan Ross and Konrad Schäfers as new board members. Further resolutions, amongst others, included the creation of additional authorized capital and authorization for the repurchase of own shares.

37.24%

FREE FLOAT

02 SHAREHOLDER STRUCTURE AND FREE FLOAT IN PERCENT AS OF DEC 31, 2015*



*) Voting rights held directly or by a subsidiary. The overview reflects the notifications pursuant to section 21 WpHG received by Zalando SE as of November 26, 2015 ("BaFin-notifications")

**) Aggregate shareholding of the founders

***) Free float calculated as total less BaFin filings and founders' stake

ACTIVE COMMUNICATION WITH CAPITAL MARKETS

Proactive dialogue with investors and analysts is a key element of our external communication. As a result of our continuous interactions we have established strong relationships and will further strengthen these. Throughout the financial year 2015 the Management Board together with the Investor Relations department attended numerous roadshows in the major European and North American financial hubs and participated in various investor conferences. Specifically, we attended ten industry or country-specific conferences. In addition, our Investor Relations activities included numerous meetings with individual investors in Berlin and video and telephone conferences. Moreover, we organized field trips to our fulfillment center in Erfurt for interested investors and analysts.

On March 25, 2015 our Capital Markets Day took place in Berlin in our fashion hub location. Our goal is to make Zalando's Capital Markets Day a permanent and important issue in the calendars of investors and analysts. With around 70 international participants – both analysts and investors – the event was well attended. In various presentations the Management Board and senior management explained the platform strategy and answered questions. Other key topics included improvements in our customer experience, initial platform initiatives and financial results and expectations. A visit to our fulfillment center in Erfurt was also arranged for our guests.

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CORPORATE.ZALANDO.COM/IR

Going forward, we will continue to inform capital market participants in a **regular dialogue** about the current and future business development. For the latest information on business updates, the Zalando share, financial reports, press releases, company presentations and our financial calendar, please visit our website corporate.zalando.com/ir.

For any other information, please contact Birgit Opp, VP Corporate Finance and Investor Relations (investor.relations@zalando.de).

JUNE 2, 2015**ANNUAL GENERAL MEETING
IN BERLIN**

From left to right:
David Schneider Co-founder and member of the Management Board, **Robert Gentz** Co-founder and member of the Management Board, **Rubin Ritter** Member of the Management Board

01.7 CORPORATE RESPONSIBILITY

01.7.1 SUSTAINABILITY

BUSINESS ENVIRONMENT

In light of the challenges facing the world today, such as climate change, a globalized economy and demographic shifts, the expectations placed on the business community to make a sustainable contribution to development are growing. The capital markets and in particular institutional investors are paying increasing attention to ecological, social and other non-financial criteria in their investment strategies. Customers and employees also value companies that act responsibly and often make this one of their deciding criteria when making purchases or choosing an employer.

Admittedly, Zalando's direct influence on production conditions in the fashion industry is limited. As one of the largest players in the fashion market, we do, however, have some indirect influence on how fashion is marketed. We intend to live up to this responsibility.

OUR APPROACH TO SUSTAINABILITY

Zalando has made a commitment to sustainable corporate management. We ensure the sustainability of our business by combining our economic goals with ecological and social goals and behaving accordingly. The objective is **to structure our company's growth in a responsible way**. In this way, we meet the requirements of our stakeholders and can avoid potential risks which could negatively impact our long-term success.

The reporting year marks the first time that we have developed a sustainability strategy to govern the way we address ecological and social issues. We have bundled existing measures and aligned future activities towards minimizing the ecological and social risks arising from our business activities on the one hand and seizing the opportunities arising from the global mega-trends and our business model on the other.

Zalando surveyed 5,000 online consumers and 1,200 employees throughout Europe to determine which issues are relevant to its business model – and therefore significant for the company. In parallel, we conducted an analysis of the media response and risk potential. The **16 sustainability fields** identified in the process were then discussed at an internal workshop with representatives of the Management Board before priorities were assigned. This process culminated in the materiality analysis, which lays the foundation for the evolution of the sustainability aspects contained in the sustainability mission statement of Zalando, the principles that guide our actions, the overarching sustainability goals and the specific action plans (sustainability program).

OUR SUSTAINABILITY MISSION

At Zalando we move fast and drive change. We grow when we face challenges. This is how we approach sustainability, too. Where challenges abound, we find solutions to make an impact – solutions that result from leveraging our talent, resources and partnerships. Despite knowing the size of the task we strive for nothing less than making fashion e-commerce a more sustainable industry.

This strategy process led to a variety of specific actions related to environmental protection, industrial health and safety, product responsibility and other areas, all of which we have combined in our sustainability roadmap and goals. In three main areas we believe that we, as a company, can make a special difference in the coming years:



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- The diversity of our workforce, their talents, and their passion to bring about change are the most important drivers for achieving sustainable change, both within our company and in society. It is our aim to foster this where we can. All of our employees can participate in the dynamic growth of our company and we constantly offer them new opportunities and avenues for personal development. We prepare them for an increasingly digital future by strengthening their digital skills and by believing in their potential.
- **Our customers should be able to make conscious decisions when buying fashion.** Zalando supports them in this endeavor, with the aid of technology-based transparency solutions and simple access to sustainable fashion. In terms of our own labels, we analyze potential weaknesses within the supply chain and take steps within the company to minimize the social and ecological footprint of the products.
- Close cooperation with the brands and access to about 18 million active customers provide us with the ability to address the issue of sustainability on a broad front. We support the commitment shown by our employees and customers to social projects by offering our knowledge on how to increase their impact via technology and collaboration. In addition, we cooperate with initiatives, start-ups and not-for-profit organizations to develop innovative solutions for specific sustainability challenges.

SUSTAINABILITY MANAGEMENT

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

VALUES AND CODES

In our effort to make the fashion industry more sustainable we rely on values and codes to guide our actions and interaction with our business partners.

OUR CORPORATE VALUES

The corporate values of Zalando form the basis for our daily activities. They apply to all employees and managers across the entire organization and define the standards that we set ourselves as an online retailer, employer and business partner. They also form the foundation for our success. In dealings with customers, their satisfaction is our top priority. Zalando strives to exceed customer expectations, to surprise them and win them over. We want to nurture the motivation and passion of our employees, which has been the decisive factor in our rapid growth of recent years. In our evolution towards becoming a global player we remain creative out-of-the-box thinkers who are not afraid of changes, of exploring unconventional and pragmatic solutions with strong team spirit.

CODE OF CONDUCT

As an online retailer, Zalando works with numerous business partners. We can leverage this position to encourage sustainability in the textile value chain. We expect our business partners to behave ethically and with a social conscience. Our requirements are specified in our binding Code of Conduct. It is based on the principles of the Universal Declaration of Human Rights, the United Nations Global Compact, the International Labour Organization (ILO), and the OECD Guidelines for Multinational Enterprises. All forms of forced labor, child labor and discrimination by our business partners are forbidden. In addition, they agree to pay the statutory minimum wage for no more than the maximum working hours, which are also elements of the social standards for our logistic operations. Further areas of concern relate to worker's health and safety and to other rules of conduct regarding environmental, social and legal circumstances (e.g. freedom of association and collective bargaining rights, due diligence in the supply chain, environmental standards, corruption). A Code of Ethics was also adopted in the reporting year.

ETHICAL SOURCING STANDARDS

Within the fashion industry, sustainability begins with the raw materials. Zalando issued a [corporate-wide guideline on ethical sourcing standards in 2014](#) which governs the proper handling of animals as well as the protection and conservation of biodiversity. It defines which goods must be excluded from our assortment due to their production process, the materials used or the images they depict (see Consumer Products, page 16). As a matter of principle, Zalando does not buy any products that originate from endangered species and condemns any form of animal cruelty. Our sourcing standards are based on the Directive 98/58/EC concerning the protection of animals kept for farming purposes, the World Organisation for Animal Health (OIE) and the lists of endangered species issued by the Convention on International Trade in Endangered Species of Wild Fauna and Flora (CITES) and the International Union for Conservation of Nature (IUCN). Zalando rejects any animal products that are not a by-product of meat production. Since 2012, Zalando has waived any items containing fur from animals that have not been bred specifically for that purpose. In addition, Zalando forbids any prints that are pornographic or discriminatory or portray extreme political views or violence.

CRISIS MANAGEMENT

As an online retailer, Zalando is exposed to risks that arise from the production conditions or from the materials used in the fashion articles it sells. If a supplier is suspected of disregarding ethical and ecological standards – particularly in low-wage countries – this can have a negative impact on the reputation of our company, and affect customer satisfaction and revenue as a result. Poor product quality can also lead to health risks for customers and employees and entail legal action. Zalando [has installed a crisis and incident management system to be prepared](#) for such cases. If our employees identify an event that they deem to be critical, they are required to report this immediately to the colleagues responsible. Their contact data can be found in a corresponding list. A special email account ensures that the representatives responsible in the Legal and Corporate Communications departments are informed immediately, as well as the Management Board. They analyze the severity of the incident on the basis of the following parameters: potential hazard, potential damage, and public awareness. If it appears that crisis management is necessary, a meeting of the Crisis Management team is convened immediately. In addition to the General Counsel, this team comprises a representative of the Management Board and the Corporate Communications department, as well as a representative of the department concerned. A crisis manager is assigned to facilitate and coordinate the necessary response.



FURTHER INFORMATION
CORPORATE GOVERNANCE
REPORT P. 44



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CORPORATE GOVERNANCE AND COMPLIANCE

Corporate governance, as practiced by Zalando, involves responsible management and control of the company geared towards long-term goals. The Management Board and Supervisory Board align their activities to the German Corporate Governance Code. Complying with the recommendations of the Code, applicable laws and other internal guidelines is ensured by the Legal department and GRC team. In the process, the GRC team ensures that corporate risks and opportunities are recognized at an early stage and are steered and monitored accordingly. We **constantly develop the risk management instruments** used and take any potential compliance risks into consideration. The GRC team works closely with the Legal department and the Internal Audit team. This guarantees a uniform cross-functional approach when assessing and mitigating risks. The Management Board has overall responsibility for the risk and compliance management system and its effectiveness is monitored by the Supervisory Board (see section on Corporate Governance, page 44).

Zalando expects all of its employees to obey the law and behave with integrity. They are obliged to be aware of risks and avoid any risks that could endanger the ability of the company to continue as a going concern. The **compliance guidelines and the Code of Ethics** adopted at the end of 2015 provide guidance in this regard. Employees can turn to the GRC team at any time if they have any questions. In addition, a number of training seminars are offered by the GRC team on the fundamentals of compliance and various other issues, such as data protection, anti-trust law, insider trading, and other relevant issues, most of which are carried out by the Legal department. Employees can report any infringements of our compliance guidelines – anonymously if desired – using the “Tell” process via email or via an Intranet form.

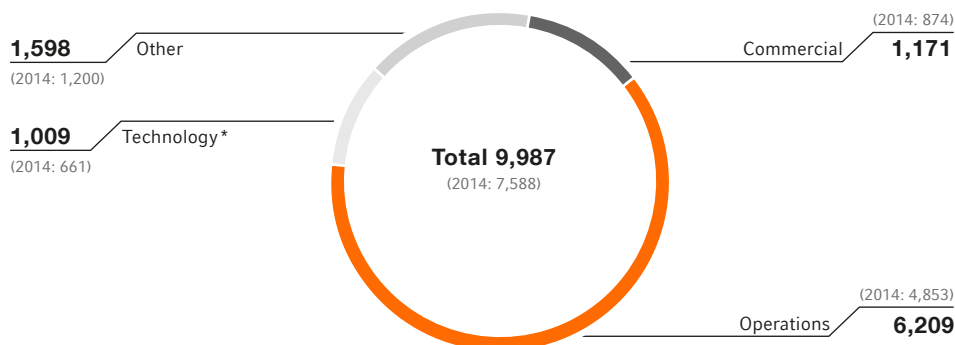
01.7.2 EMPLOYEES

ZALANDO IS GROWING

Within just a few years, Zalando has grown **from a young start-up to an international firm**. Its diversity and internationality make the company an appealing employer, particularly in Berlin.

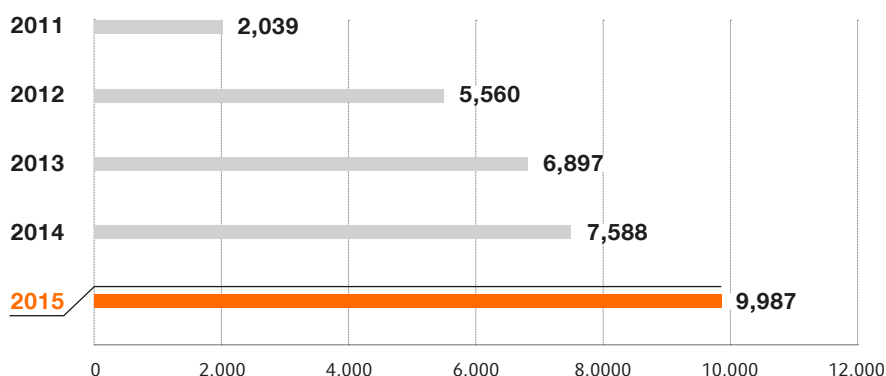
At the end of 2015, Zalando had 9,987 employees (prior year: 7,588), representing an increase of 31.6% on the prior year. The average headcount grew by 1,709 to 9,205. The significant growth was primarily achieved by increasing the headcount in the fulfillment centers. In addition, the workforce of the technology department was reinforced (52.6% increase).

03 EMPLOYEES BY CLASSIFICATION DEC 31, 2015 (DEC 31, 2014)



*] Includes Data Intelligence, Customer Experience, Brand Solutions, Metrigo GmbH, Dublin, Helsinki

04 FIVE-YEAR HEADCOUNT DEVELOPMENT DEC 31, 2011–2015



In the course of the astonishing growth of the company and the related headcount increase, personnel expenses also increased in fiscal year 2015 to EUR 316.6m (prior year: EUR 248.5m). In light of the targets set for 2016, a further increase in the headcount and personnel expenses can be expected.

THE ZALANDO CULTURE – OPEN AND HONEST

In light of demographic changes and the associated scarcity of professionals, there is a growing demand for a competitive corporate culture and human resources strategy.

Zalando fosters a trusting and transparent corporate culture that puts employees at the center. We regularly inform our employees about the latest developments within the company and planned projects. To this end, the Management Board makes use of **webcasts that follow the TED talks format (known as zTalk)**. The zTalks are held every two weeks and give the employees an opportunity to gain insights into the latest developments and strategic issues and address their questions directly to the Management Board.

A **monthly online pulse check (zBeat)** has been used to identify any critical issues among the employees of the SE since June 2015. All results are published in the Intranet at business unit level. The team leaders discuss these results with their teams.

Open feedback and employee development opportunities are another key feature of Zalando's culture. This includes a formal performance review being held between each individual and their respective manager at least twice a year to discuss performance and skills levels. Furthermore, the conversation provides an opportunity to plan development areas as well as to identify new challenges. In addition, feedback is provided on a continuous basis and can be initiated by either the employee or the team leader.

CAREER PROSPECTS FOR EVERYONE

In order to develop and enhance their personal strengths, Zalando offers its employees a wide **portfolio of training opportunities**. In many areas we offer additional specialized training.

Managers receive a customized personal development offering including coaching, exchange opportunities with other managers and tailored management trainings. Additionally, the management team receives annual feedback as well as intensive support from HR business partners.

Special development programs offer employees the opportunity to obtain new insights and to become qualified for more advanced tasks. All vacant positions are initially advertised internally within Zalando, raising employees' potential to develop within the company.

To cover our need for qualified professionals in the long-term, Zalando **invests in young people starting their careers**. At present, applicants have a choice between eight apprenticeships in either commercial or technical disciplines. We currently have 33 apprentices. We offer university graduates an 18-month trainee program in which they can obtain insights into the various departments. It is not unusual for this to become the foundation for a subsequent professional career at Zalando. At present we have 15 trainees. To ensure an holistic approach, apprenticeships and trainee programs are composed of three elements: practice, training and "getting to know Zalando".

New recruits to Zalando can expect intensive professional on-the-job training and support with personal issues and social integration in the company. New colleagues at the SE start with a "Welcome Day" which is held twice a month. At these events, the Management Board and line experts provide the new colleagues with insights about the company and its culture. It also allows them to make first networking contacts. In addition, onboarding programs specific to each department ensure that new employees are familiarized with the company efficiently and integrated rapidly.

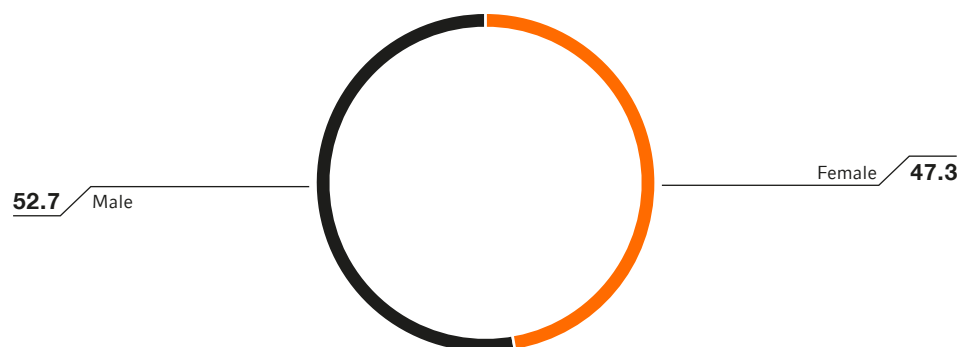


FURTHER INFORMATION
CORE CAPABILITIES P. 35

DIVERSITY AND EQUALITY OF OPPORTUNITY

Diversity at Zalando is anchored in the corporate culture. It provides the foundation for creativity and innovation, both of which are decisive factors for the success of the business. We strive to create a **diverse workforce in terms of age, cultural background, gender and skills**. The workforce at Zalando comprised 117 nationalities in the reporting year. Women accounted for 47.3% of the workforce (prior year: 52.5%). At executive level, women accounted for 33.7%. The average age of the workforce is 36.2 years.

05 SHARE OF FEMALE AND MALE EMPLOYEES IN PERCENT AS OF DEC 31, 2015



We work continuously on establishing an inclusive corporate culture for our employees and consider all the various perspectives and ideas arising from our departments. This includes promoting employees in line with their capabilities. The fulfillment center in Erfurt, for example, is equipped with special receivers that feature a vibration alarm to indicate a need to communicate to the hearing impaired or to point out any special situations. The team leaders are trained to communicate in sign language.

CO-DETERMINATION

The International Employee Board (IEB) of our SE was founded in the course of reorganizing the company as a European Company (Societas Europaea, SE) in 2014. The IEB exercises the rights of the employees to be informed and to communicate with the Management Board on issues and concerns that affect the employees or the development of business and the prospects of the entire Zalando group. The members of the IEB also appoint the employee representatives who sit on the Supervisory Board of the SE.

Co-determination by the workers at the fulfillment centers of Zalando Logistics SE&Co. KG at Brieselang and Erfurt and at zOutlet Berlin GmbH – our outlet shop in Berlin – is ensured by elected representatives. A joint works council has also been in place at Zalando Logistics SE&Co. KG since October 2015. A works council is currently being established at Zalando Customer Care International SE&Co. KG.

Another body to facilitate co-determination was founded in a pilot project at the end of 2014, the **Zalando Employee Participation (ZEP)**. ZEP is not a works council in the sense of the German Works Constitution Act, but a body that has been initiated by the employees in cooperation with the Management Board, the Human Resources department and the employees. After successful completion of the pilot phase, ZEP comprises twelve representatives elected by our employees. ZEP addresses the daily issues and problems of employees and liaises with the Human Resources department and the Management Board. Based on the successes to date, a ZEP was also established at zLabels GmbH, CuCa DACH and Content Creation in September 2015.

EMPLOYEE BENEFITS

Zalando offers its employees a range of social and fringe benefits that provide relief and financial advantages. In addition to sales vouchers to subsidize purchases, we offer our employees a company-subsidized subscription to public transport. We provide an **attractive and healthy working environment** offering the latest technical equipment (laptop and smartphone) and healthy food (fruit and drinks).

Events and sport offerings promote professional and private networking within our international network. We support a work-life balance using a variety of services, such as an online platform that offers information and care services, special family offices, family events and day care spots for single parents.

In the course of the IPO in 2014, it was important for us to increase employee involvement. Our program of issuing preferential rights to subscribe to shares in the course of the IPO was very popular: more than 4,000 employees became shareholders of Zalando.

Zalando launched an additional employee stock option program at the turn of 2015/2016: By participating in the “ShareBonus” program, employees receive a Zalando share package as a gift once a twelve-month waiting period expires. Participating in the “ShareInvest” program allows employees to receive bonus shares after the waiting period and an accumulation phase involving self-defined monthly share acquisition.



SKIP TO P. 76

WORKING CONDITIONS IN FULFILLMENT CENTERS

In recent years, we have improved the working conditions of the fulfillment centers. The wages paid to our employees at these centers have been steadily raised, based on the respective collective agreements for the logistics industry. Uniform, binding social standards and six-monthly DEKRA audits at our own fulfillment centers and the logistics centers of our service providers set a **high standard for the working conditions**. The audits also test compliance with the equal pay approach, by which hired temporary employees are guaranteed the same wage as permanent employees. The findings in 2015 were all graded either good or excellent.



OCCUPATIONAL SAFETY AND HEALTHY WORKPLACES

Health and safety at work are given top priority at Zalando. For this reason, we monitor the working conditions at our locations and improve them continuously.

We conduct **regular industrial health and safety inspections** as well as fire safety inspections. Experts in industrial safety identify any deficiencies and derive suitable remedial action, the effectiveness of which is tested at regular intervals. Each quarter, the industrial health and safety committee at each Zalando entity convenes, which involves a site inspection in conjunction with the company doctors.

We prevent on-the-job accidents with a range of measures including online training, fire prevention training and first-aid seminars, the provision of personal safety equipment as well as safety information in the Intranet and in department-specific safety manuals.

To ensure that our employees remain healthy, we offer **preventive occupational healthcare, vaccinations, ergonomic workstations and numerous sport programs** – from an annual relay race to football and volleyball training and yoga. We intend to extend the range of offers in the coming year. Our employees at the fulfillment centers can also participate in weekly back exercise courses.

01.7.3 FASHION

HIGH STANDARDS OF QUALITY ALONG THE SUPPLY CHAIN

Zalando has made a commitment to high quality and product safety standards in the interest of customers, employees and factory workers. To ensure this, we commission independent international inspection agencies to carry out tests; we are constantly in dialogue with our employees and work closely with our suppliers.

In the case of third-party brands, we have implemented a supplier system which guarantees that our due diligence is met in terms of product safety. Each supplier is rated based on a range of indicators, which allows us to allocate the supplier to a risk cluster. Since the beginning of 2015, the rating system has been in the pilot phase for selected product categories and suppliers. After the system passes the tests, it will be rolled out to other product categories and suppliers.

To **enhance our responsible assortment**, we regularly train our buyers in the relevant product safety issues for category management. This familiarizes them with ecological and social requirements before making purchase decisions.

Due to the particular sensitivity of infants, more detailed training is given on other issues relating to children's clothing:

- We train our purchasing officers in the special legal requirements for all articles that must bear CE certification and teach them about the consequences of non-compliance. This affects a number of accessories and sport articles distributed by Zalando. The CE certification confirms that the products comply with the applicable EU laws and regulations.
- Since 2015, suppliers and employees have been sent a newsletter to more effectively raise awareness of the special aspects of product safety.

SPECIAL REQUIREMENTS ON PRIVATE LABELS

On behalf of zLabels, a number of articles are produced for Zalando. The key factor in the success of these private labels is that their quality meets or surpasses customer expectations. In 2014, zLabels GmbH **began to establish a comprehensive quality management system** and to improve it continuously. It defined the processes governing the interaction between customers, products, suppliers and quality management as well as other external third parties involved in a suitable and easy-to-understand manner. An internal audit monitors the effectiveness of the controls, assesses the results and contributes to their continuous improvement by taking appropriate corrective action. This ensures that zLabels has installed a structured process to optimize the quality of its private labels as part of its defined corporate strategy.

To ensure quality, zLabels GmbH has also developed a concept for subjecting private labels to a chemical analysis. In collaboration with external testing institutes, we ensure that the products not only meet the legal standards and regulations but also additional, more stringent, requirements on hazardous substances. The test concept is evaluated at regular intervals and updated as needed.

The recall process is evaluated at regular intervals to ensure a smooth recall process in all channels (Online Shop, Lounge and Outlet). We identify potential for improvement and initiate the corresponding measures for implementation.

ZLABELS MEETS ...

CADS

Product safety and ethical sourcing are issues that are becoming increasingly important to consumers and are playing a more frequent role in purchase decisions. To address this trend, zLabels joined **CADS – Cooperation at DSI (Deutsches Schuhinstitut)** – in 2015. This association, which comprises members from both industry and retail, works towards avoiding hazardous materials, towards the production and marketing of non-toxic shoes and shoe materials and towards more environmentally friendly production. Moreover, Zalando is a member of Leather Technology Centre, BLC. This association offers information, knowledge and practical support related to leather, including its purchase, production and uses.



DIN STANDARDS COMMITTEE FOR SHOES AND DIN STANDARDS COMMITTEE FOR LEATHER

Since 2015, zLabels has also been a member of the DIN standards committee for shoes and the DIN standards committee for leather. The standards committee addresses the applicable directives and laws and the methods used to identify forbidden chemicals in consumer goods, in this case shoes and leather. The goal of our membership is to participate in the development of methods and contribute to the definition of acceptable tolerance levels as well as complement scientific studies with an economic perspective.

RESPONSIBILITY IN THE SUPPLY CHAIN

We are aware of our responsibility towards the people who manufacture our products and place great value on creating transparency in the supply chain of our private labels. With our [global sourcing model and the focus on fast fashion](#), we know we are at the start of a challenging journey in bringing both commercial and ethical requirements together. However, with a growing understanding of our supply chain and clear focus on improving workers' lives, we are setting ambitious goals for further improving the way we do business. zLabels GmbH does not own any of its production locations but does maintain direct relationships to the suppliers in the various countries producing our goods. In order to reach transparency and on this basis to improve working conditions in the countries of production we take a three-prong approach:

UNDERSTAND OUR SUPPLY CHAIN

zLabels has 16 different brands. Main sourcing countries were China (50%), India, Bangladesh, Turkey (each 8%), Romania, Portugal (each 4%), Vietnam, Spain and Italy (each 3%). All of our suppliers must disclose their factories to us before we start a business relationship and [sign-up to our Code of Conduct](#) (see page 67). This process was completed by end of year 2015. They must also provide us with a valid social audit report. Suppliers who have worked for us prior to 2015 must supply this report in retrospect.

COMPLIANCE

We assess compliance with our Code of Conduct for all our factories through third-party audits. All factories require a social audit that details how well they comply with the requirements of our Code of Conduct.

Audits provide information on the working conditions in our factories and the key ethical trade issues identified. Each audit has a [Corrective Action Plan \(CAP\)](#) which lists areas that the factory needs to work on and explains the optimization measures required. Our Ethical Trade team supports factories to work on the required improvements through our Factory Improvement Program, collaborating with our trusted third parties for on-site training and support where required. To better understand the issues within our supply chain, we complement our audit program with supply chain mapping and more in-depth investigations into working conditions. We then incorporate our findings into our Improvement Program and work together with our suppliers to resolve the issues identified.



FURTHER INFORMATION
CODE OF CONDUCT P. 67

FURTHER IMPROVEMENT

From our audits, investigations and third-party collaborations, we understand that many countries have endemic issues that affect the majority of the industry. zLabels is committed to tackling these issues through the ongoing improvement and worker focused program:

- We provide our suppliers group training on relevant key ethical trade issues. We launched this support program in September 2015. So far, we have **trained 16 suppliers and factory managers in China** and delivered training to **70% of our suppliers in Italy and Spain**.
- We provide on-site support to resolve specific non-compliances in our factories, for example by providing HR support and management and worker training on fire and chemical safety. During the pilot phase of our program, we visited 46 factories in China, India, Bangladesh, Turkey and Romania to assess and support the factories to improve.

In 2016, our Improvement Program will focus on **training our suppliers on key issues such as Health and Safety**, HR systems including age verification, and labor rights. We will also provide on-site support for strategic and/or high risk factories.

In order to achieve our ambitious goals, we developed a long term plan. This will structure our activities and ensure improvement. Since the Ethical Trade team started operating only two years ago, our plan incorporates significant room to evaluate progress and adapt to new insights.

01.7.4 THE ENVIRONMENT

MODERN FULFILLMENT CENTERS

Zalando considers a range of ecological aspects when planning and constructing new fulfillment centers. We demand DGNB certification for all new fulfillment centers (Deutsche Gesellschaft für Nachhaltiges Bauen – German Association for Sustainable Buildings). DGNB certified buildings conserve resources and display lower greenhouse gas emissions. Our fulfillment centers in Erfurt and Mönchengladbach and our corporate headquarters in Berlin have received DGNB Silver certification.

For example, the buildings are heated using gas heat pumps powered with natural gas. This not only reduces energy costs but also protects the environment by exploiting ambient heat from the air and the waste heat from motors. The high efficiency of this system results in **lower energy consumption and a reduction in the carbon footprint**. The power supply for our locations is sourced from a mix made up of 34% renewable energy sources and 66% fossil fuels.

The use of extremely modern low-energy plants at our locations is subject to a continuous improvement process. The process chain and consumption of materials along the chain is monitored permanently and improved in a targeted fashion. Among other things, the use of renewable energy is tested and rated at our plants. There are plans to install an energy monitoring system in 2016 to allow optimized low-energy operation of plant and equipment.

We have commissioned a facility management firm to provide technical services for all our building technology (including ventilation/cooling/heating) which is specialized in low-energy operation. In addition to the regular service, an energy audit pursuant to DIN EN 16247 was carried out at three offices and two fulfillment centers in 2015. The audit reports have laid the foundation for setting up a power meter concept and for including the power consumption of plant and equipment in a modern energy management system.

The tender to build our **new fulfillment center in Lahr**, which should go into operation in the autumn of 2016, has focused particularly on low-energy technology. Zalando has constantly designed its locations to allow energy efficient operation that is comfortable for the employees.



SKIP TO P. 83

COMPACT AND RECYCLABLE PACKAGING

As an online retailer, packaging is a major factor that Zalando can leverage. Since its foundation, the company has used its power to increase the share of recycled material and **uses cardboard that consists of 98% recycled material**. Even the white top layer on the cardboard consists of recycled newspaper. This ensures a homogeneous white surface on which the Zalando logo and all campaign messages can be printed. All the printing inks used are water-based and therefore environmentally friendly.



We sometimes use bubble-wrap for large boxes containing a number of articles to ensure adequate safety in transport and that the product arrives in good quality. This material is also composed of 20% recycled material and can be fed back into the materials cycle. Furthermore, bubble-wrap has a lower environmental footprint than paper filling. It is used equally by all locations.

In addition to cartons, Zalando is making greater use of shipping envelopes. These offer stable protection during transport and also have ecological benefits. The **shipping envelope** is designed so that our employees can vary its size when closing it. In addition, ventilation holes ensure that unneeded air can escape. As a result, only the volume needed for the ordered article is transported. This not only reduces the carbon footprint during shipping but also fulfillment costs. For a number of months we have exploited these advantages by increasing the share of shipping envelopes at all three locations. The share of total volume shipped in shipping envelopes was raised from an average of 5% in 2014 to 12%. We are exploring other useful ways of leveraging this.

We are striving to integrate the issue of recycling at our locations. For example, all no longer usable cartons and foil bags are separated and recycled accordingly. This can also be done by our customers at any time: no matter whether a box, shipping envelope or foil bag is used, all packaging is 100% recyclable.

01.7.5 SOCIAL ENGAGEMENT

HELPING YOUNG PEOPLE FIND JOBS

Since 2012, Zalando has played an active role in a number of projects to fulfill its responsibility towards society. The focus is placed on promoting education and health standards among children and young adults.

Since 2013, Zalando has been working together with **JOBLINGE**, an initiative of The Boston Consulting Group GmbH and Eberhard von Kuenheim Stiftung of BMW AG. The project supports poorly qualified unemployed young people in obtaining an apprenticeship or finding a job. The program, which runs for a number of months, prepares young adults for an apprenticeship or a position at the company of a cooperation partner of JOBLINGE and gives them a genuine chance of starting an apprenticeship. A mentor is available for the participants of the program for the full period and can be called on as needed.

Zalando sponsors the program by:

- allowing the participants to visit the company to obtain practical insights and information about possible career paths,
- providing apprenticeships and permanent positions at Zalando,
- communicating the initiative internally within the company and making employees aware of the voluntary work involved and motivating them to take part. A total of 36 employees have gotten involved in the initiative so far.

REFUGEE ASSISTANCE

Since 2014, Zalando has provided emergency assistance for children in need via its cooperation with **Humedica e.V.** The goal of this non-governmental organization is to help people in need as a result of natural disasters or structural poverty in over 90 countries around the world. The focus is on medical assistance and providing aid after natural disasters but the organization also operates in the fields of food supply and relief supplies, family sponsorships and development work.



Like many other companies, Zalando upped its support for refugees in 2015. The situation of refugees in Sicily is particularly precarious as the refugee camps are full and thousands of new refugees arrive at the island daily by sea. In cooperation with Humedica, Zalando **donated two truckloads of shoes and clothes which were distributed** among the refugee camps and tent-cities with the assistance of two local partners in Mineo, Caltanissetta and Catania, among others. In total, over 7,500 refugees are accommodated there. Some of the clothing was donated to the partner association of Humedica, "Missione Tre V only" which distributed it to the refugee centers and handed out shoes and clothing to needy refugees in an open house. At this facility, the refugees can attend language courses, sewing courses or obtain advice.

CLOTHING FOR PERSECUTED MINORITIES

The focus of the donation campaigns this year was on aid for refugees. The largest campaign was a donation to the Central Council of Yazidis in Germany. After the Islamic State (IS) marched into Shingal in northern Iraq in mid-2014 and carried out acts of genocide on the Yazidis, more than 400,000 Yazidis and Oriental Christians were forced to flee the country and are now living as refugees in the autonomous region of Kurdistan. There is virtually no permanent accommodation available and the supply situation is poor. In particular, there is a lack of winter clothing suitable for the harsh conditions in the mountains of Kurdistan. The Central Council of Yazidis in Germany was searching for a rapid and pragmatic solution and turned to the German clothing industry. The umbrella organization, "GermanFashion Modeverband Deutschland e.V.", forwarded the request to its member firms and within a few days many major players in the fashion industry put together 70,000 items of clothing with a total value of EUR 1.2m. Zalando donated a significant share of this.



SHARED MISSION

Zalando encourages its employees to do voluntary work. The “Pitch your Cause” initiative provides employees the opportunity of winning supporters for the causes close to their heart. They can build up a team at Zalando where they can develop and implement their own social project or support an existing one. Alternatively, they can turn to our Corporate Social Responsibility team for an idea for a project. We value the commitment displayed by our employees and allow all employees to take up to 16 hours of paid leave per year for their commitment to a social project (“volunteering time off”).

Shortly before Christmas, Zalando organized the “Winterkindness” campaign for the facilities of the Berlin City Mission and SOS Children’s Villages in Berlin. Employees were invited to participate in a number of offers ranging from donating toys and clothes to group activities and handing out food to the needy. For example, at the SOS Children’s Village, employees joined needy families in the neighborhood for an afternoon of arts and crafts. Moreover, our employees helped the Berlin City Mission to prepare and hand out warm meals to the homeless or visited refugees at the emergency shelter of the Berlin City Mission.



01.7.6 OUTLOOK

The standards we have set ourselves for sustainability are high: we want to tackle the challenges and implement the associated tasks with the same enthusiasm that drove the growth of Zalando from a start-up to an international organization. To this end we analyze our own processes and develop measures to keep our footprint as small as possible. We have drawn up a roadmap within the framework of our sustainability strategy which we will implement in the months and years to come.

01.8 HIGHLIGHTS 2015

JANUARY

AMSTERDAM FASHION HOUSE

On January 17, Zalando opens its Fashion House in Amsterdam. Customers get more information about fashion trends, and can be inspired by brands, while relaxing with a coffee.



FEBRUARY

ARE YOU READY?

The novel *Are You Ready?* campaign launches on February 27. It's the first advertising campaign to be produced completely in-house, and showcases the latest trends for the upcoming spring/summer season. It was filmed in New York at the start of the year.



MARCH

NEW TO THE PLATFORM: METRIGO

The Zalando platform is growing. In March 2015, Zalando signs a deal with Metrigo GmbH to incorporate display marketing banners and real time bidding onto the Zalando platform. Metrigo helps Zalando to craft its marketing and advertising strategies more individually, and target them more accurately.

APRIL

FASHION INSIGHTS CENTER

On April 22, Zalando opens its first international tech site in Dublin. The new team will eventually consist of roughly 200 data analysts and developers, and will support Zalando in optimizing its customers' online shopping experience.

MAY

CURATED SHOPPING

On May 15, *Zalon* is launched. Professional stylists give customers free fashion advice – first in Germany, then by autumn in Austria and Switzerland, too. The name harks back to the salon culture of the 1920s. Zalando has taken this vibe and given it a modern twist to offer our customers bespoke fashion advice.



JUNE

JOINING THE MDAX

On June 19, the Zalando stock joins the MDAX, the German Stock Exchange's second most important index. It had previously made it into the SDAX in December 2014.



JULY

FASHION HOUSE BERLIN

This summer, Zalando opens its Fashion House in Berlin. From June 7–10, fashion lovers are invited to take part in an innovative and interactive fashion show, as well as workshops and symposia, and sneak previews of collections for the upcoming season.

AUGUST

TECHNOLOGY IN FINNISH

In August, Zalando opens its second tech hub outside of Germany – in Helsinki. The Finland-based team will focus on the development of innovative, customer-focused products such as new apps.

SEPTEMBER

SAME DAY DELIVERY

Zalando is always testing new ways of improving its customers' shopping experience. In September, the Same Day Delivery pilot scheme starts in Berlin and Cologne. Customers receive their goods the day they order them.



OCTOBER

#REFUGEESWELCOME

In October, Zalando takes part in *Moabit hilft!* – a Berlin-based initiative to help refugees. zLabels donates 100 moving boxes filled with shoes and clothes. Also Caritas gets 100 boxes to help look after the refugees.

NOVEMBER

ZALANDO CAMPUS

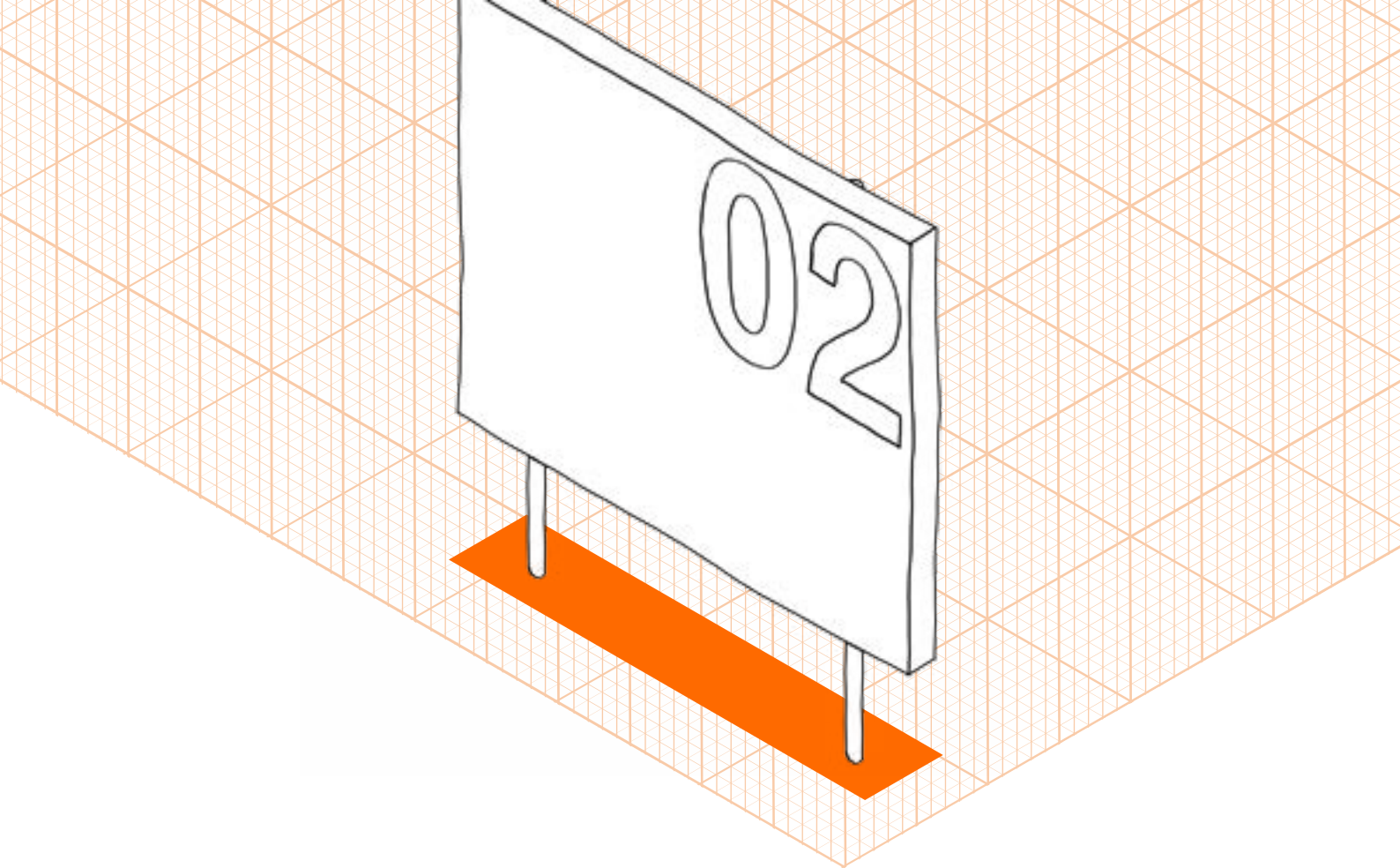
In November, Zalando announces its first own Zalando campus, right next to the headquarters in Berlin's Friedrichshagen. Building works starts in early 2016, with the Campus ready and operational by 2018. On ~100,000 m², it will provide space for roughly 5,000 Zalando employees. The centerpiece will be a seven-story office building with a large roof terrace, restaurant level, childcare facilities and a fitness studio.



DECEMBER

FULFILLMENT CENTER IN ITALY

In December, Zalando starts a pilot project to internationalize our logistics network, opening a fulfillment center run by a service partner in the northern Italian town of Stradella. The first test deliveries from Stradella will start in January 2016.



02

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02.1 BACKGROUND TO THE GROUP

02.1.1 BUSINESS MODEL

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

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

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

02.1.2 GROUP STRUCTURE

GOVERNANCE AND CONTROL

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

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



CORPORATE STRATEGY P. 10



SKIP TO P. 85



FURTHER INFORMATION
FOREWORD P. 8

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

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

GROUP SEGMENTS

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



CORPORATE STRATEGY P. 10

02.1.3 STRATEGY AND OBJECTIVES OF THE GROUP

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

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

ZALANDO AS A PLATFORM AND DIGITAL PARTNER FOR FASHION PARTNERS

Zalando is planning to further diversify from being a wholesale online retailer that primarily buys and sells merchandise to a **platform model**. Under this strategic direction, the company intends to establish itself as a platform that brings customers and fashion together. Zalando is

further developing its operational and technological infrastructure to enable all participants to create value through the Zalando platform. Participants include customers, brands/merchants and intermediaries (for example, fashion stylists, logistics providers and marketing affiliates). Going forward, Zalando plans to also accommodate marketplace models where brands will be able to sell directly to the consumer via the Zalando platform, thereby keeping and managing their own inventory risk (versus Zalando taking ownership of the merchandise).

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

CUSTOMER SATISFACTION WITH FOCUS ON MOBILE DEVICES

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

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

ATTRACTIVE EMPLOYER

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



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COMMERCIAL AND OPERATIONAL EXCELLENCE

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

02.1.4 MANAGEMENT SYSTEM

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



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

- **Ratio of mobile site visits to total site visits:** Users are making greater use of mobile devices to access the internet. In our effort to offer customers the opportunity to enjoy high quality shopping on their mobile devices, Zalando continues to develop and refine its websites and apps. As a result, the ratio of website visits from mobile devices to the total number of website visits increased by around 14.8 percentage points in 2015, rising from 42.3% in 2014 to 57.1%.
- **Number of active customers:** The Zalando group measures its success by the number of active customers. Each customer that has placed at least one order within the last year (based on the reporting date) is considered active. Compared to the prior year, the number of active customers increased by 3.2 million, rising from 14.7 million to 17.9 million in 2015.
- **Number of orders:** In addition to revenue, the number of orders placed is a key performance indicator for the management of the group. This indicator is monitored independently from the value of merchandise and is a key driver of growth. In 2015, the number of orders placed increased from 41.4 million in 2014 to **55.3 million**.
- **Average number of orders per active customer:** The average number of orders placed by active customers during the last twelve months totaled 3.1 as of December 31, 2015 (prior year: 2.8).
- **Average basket size:** Similar to the number of orders placed, the average basket size has a direct effect on the revenue of the group. It is also an important indicator of the trust customers place in the company. The increase in the average basket size from EUR 66.6 to **EUR 67.8** in fiscal year 2015 is another important step for Zalando.

02.1.5 RESEARCH AND DEVELOPMENT

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

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

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

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

Research costs were immaterial.

02.1.6 SUSTAINABILITY

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

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

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

Additional information regarding our sustainability strategy is provided in the separate section 01.7 Sustainability.¹¹



FURTHER INFORMATION
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¹¹⁾ The section sustainability is not part of the audited combined management report

02.2 REPORT ON ECONOMIC POSITION

02.2.1 MACROECONOMIC AND SECTOR-SPECIFIC ENVIRONMENT


WWW.EUROMONITOR.COM

Impacted by a challenging economic climate, the European retail industry¹² reported annual growth of only close to 2% in 2015. Driven by the overall mega-trend towards online shopping, **online retail was growing significantly faster**, closing 2015 over 13% up on the prior-year. The European fashion market¹³ posted a trading volume of around EUR 417bn in the reporting year, equivalent to a nominal growth rate of 1% compared to the prior year, slightly higher than in prior years (average annual growth rate of 0.4% in the last five years).¹⁴ The online fashion market developed far better across Europe, growing by over 10% to EUR 46bn in 2015 compared to the prior year.¹⁵

The figures for the German retail industry show a similar picture with nominal growth of close to 2% compared to the prior year. Similarly, the internet retail segment developed at a much faster pace than retail as a whole. In nominal terms, for example, **revenue in 2015** was up almost 13% on the prior-year figure. Following low sales growth in 2014, the German fashion industry again only generated marginal nominal growth in 2015 of just 0.3%. Similar to 2014, the weather created problems for the fashion industry in many months of 2015. In particular, a heatwave in August and the substantially higher than average temperatures in November and December hampered the sell-through of seasonal collections.^{16,17} Despite these weather conditions, German online fashion retailers were able to increase sales in 2015 by more than 8% compared with the previous year, up to a market volume of almost EUR 12bn.

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


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- Online trade with fashion items is part of a second wave of e-commerce. The share of fashion items sold on the internet will continue to grow in contrast to fashion items sold by traditional brick and mortar retailers.
- Europe is a highly attractive fashion market with a concentration of affluent customers and high population density. In our main sales markets in Western Europe fashion spending per person came to EUR 771 in 2015, making the region the world leader.¹⁸ Furthermore, the western European fashion market displays the highest spend per square kilometer worldwide (estimated at EUR 86.5k per square kilometer, compared to a spend of roughly EUR 14.9k per square kilometer on fashion worldwide).¹⁹ Spending per square kilometer is an important indicator for online retailers, as higher spending per square kilometer allows for a comparatively faster and lower-cost delivery.

12) The data on the European retail market relate to Europe excluding Russia
 13) The data on the European fashion market relate to Europe excluding Russia
 14) Euromonitor International, retail segment including grocery retailers
 15) Euromonitor International, retail segment including grocery retailers
 16) Textilwirtschaft: Nur Gleichstand, No. 2B, January 14, 2016
 17) Euromonitor International, retail segment including grocery retailers
 18) Euromonitor International
 19) Euromonitor International

- Online fashion retailers can typically generate gross margins between 40% and 60%. These margins are considerably higher than those of online retailers in other product categories, e.g., electronics.²⁰
- Mobile devices have made a considerable contribution to the strong growth in online retail trade. This also applies to the online sale of fashion. Smartphones and tablets give consumers access to fashion anytime and practically anywhere. Growth clearly shows that customers are ordering an increasing number of products via mobile devices. Forecasts for mobile commerce illustrate that this trend may well continue for the coming five years at an average annual growth rate of roughly 18%.²¹

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



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02.2.2 BUSINESS DEVELOPMENT

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

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

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

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

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

21) Euromonitor International

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

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

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

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



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02.2.3 ECONOMIC SITUATION

FINANCIAL PERFORMANCE OF THE GROUP

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



FURTHER INFORMATION
CONSOLIDATED STATEMENT
OF COMPREHENSIVE INCOME
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14 CONSOLIDATED INCOME STATEMENT

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

15 OTHER CONSOLIDATED FINANCIAL INFORMATION

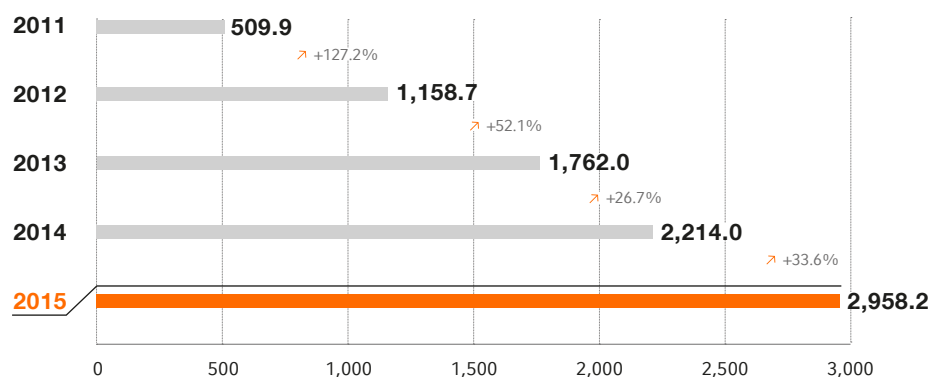
IN EUR M	JAN 1–DEC 31, 2015	JAN 1–DEC 31, 2014	CHANGE
EBIT margin (as % of revenue)	3.0%	2.8%	0.2pp
Adjusted EBIT (excl. equity-settled share-based payments)	107.5	81.9	25.6
Adjusted EBIT margin (as % of revenue)	3.6%	3.7%	–0.1pp
EBITDA	123.8	87.9	35.9
Adjusted EBITDA (excl. equity-settled share-based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



FURTHER INFORMATION
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OF COMPREHENSIVE INCOME
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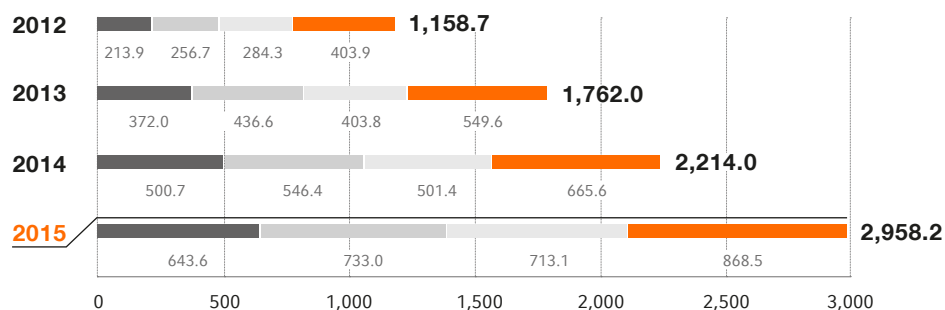
DEVELOPMENT OF REVENUE

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



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

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



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

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



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16 KEY PERFORMANCE INDICATORS

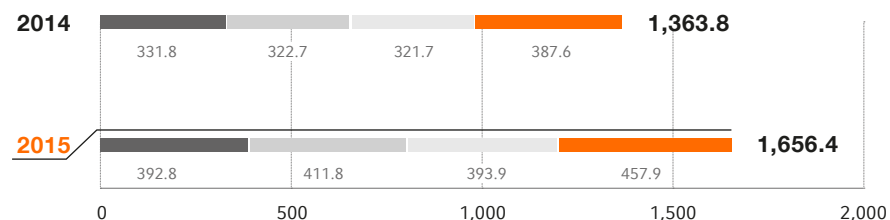
PERFORMANCE INDICATORS *	JAN 1–DEC 31, 2015	JAN 1–DEC 31, 2014	CHANGE
Site visits (in millions)	1,656.4	1,363.8	21.5%
Mobile visit share (as % of site visits)	57.1	42.3	14.8pp
Active customers (in millions)	17.9	14.7	22.4%
Number of orders (in millions)	55.3	41.4	33.5%
Average orders per active customer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

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

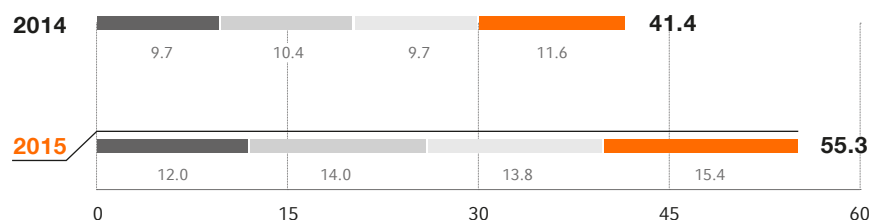
Zalando's most important performance indicators are revenue, EBIT margin and adjusted EBIT margin, average basket size as well as number of orders. These are forecast for the fiscal year 2016 in section 02.5.

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

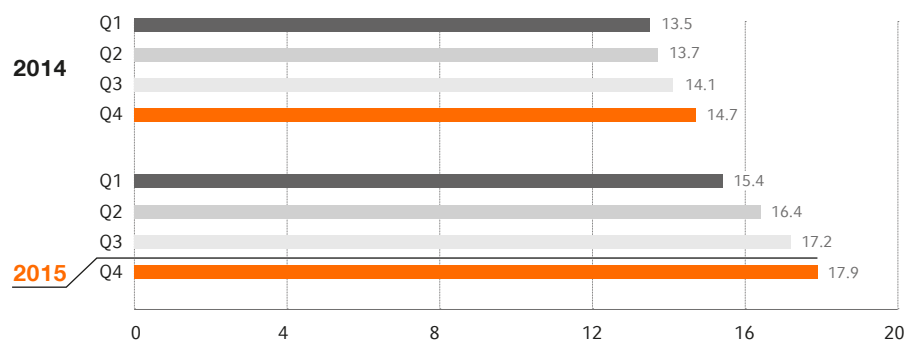
08 SITE VISITS IN MILLIONS (2014–2015) BY QUARTER



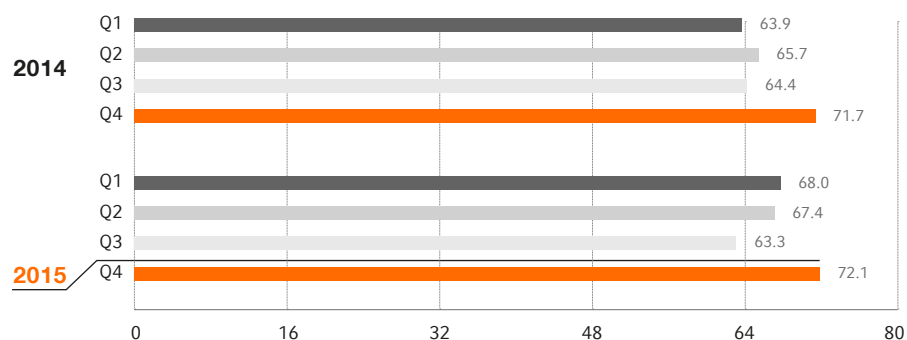
09 NUMBER OF ORDERS IN MILLIONS (2014–2015) BY QUARTER



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



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



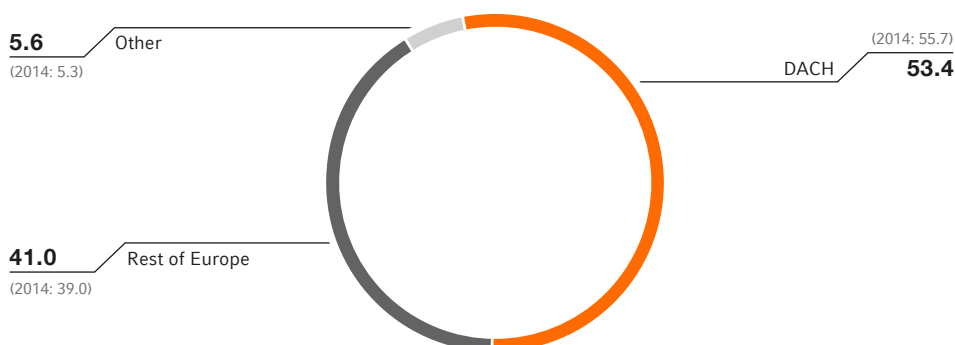
Zalando is profiting from a strong increase in demand from younger customers thanks to the larger assortment of lower price articles and the ease of mobile access to the offering. The close cooperation between Zalando and fast fashion brands, for example, Topshop, Topman and Mango, has helped raise the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

Revenue by segments breaks down as follows:

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



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

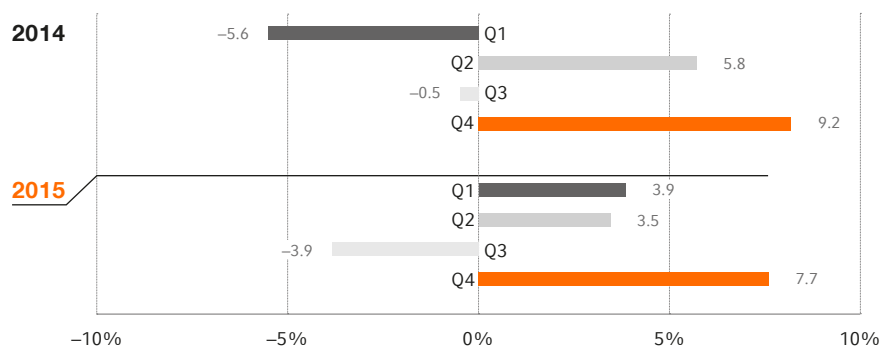
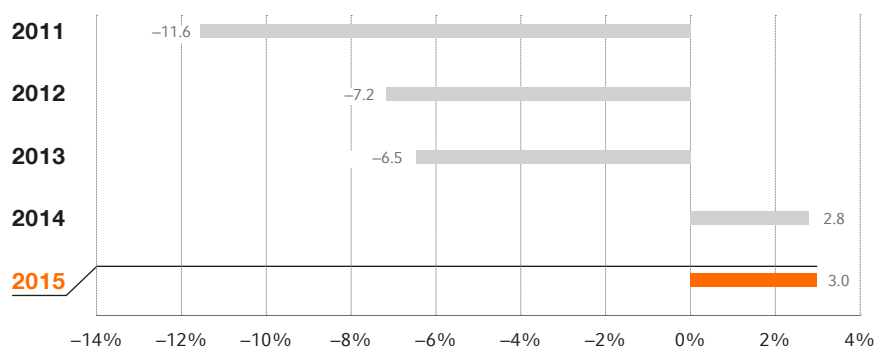
In the largest segment, **DACH, revenue reached EUR 1,580.1m in 2015** (prior year: EUR 1,234.0m), equivalent to an increase of 28.0% compared with 2014.

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

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

DEVELOPMENT OF EBIT

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

13 EBIT MARGIN (2014–2015) BY QUARTER**14 YEARLY EBIT MARGIN (2011–2015)**

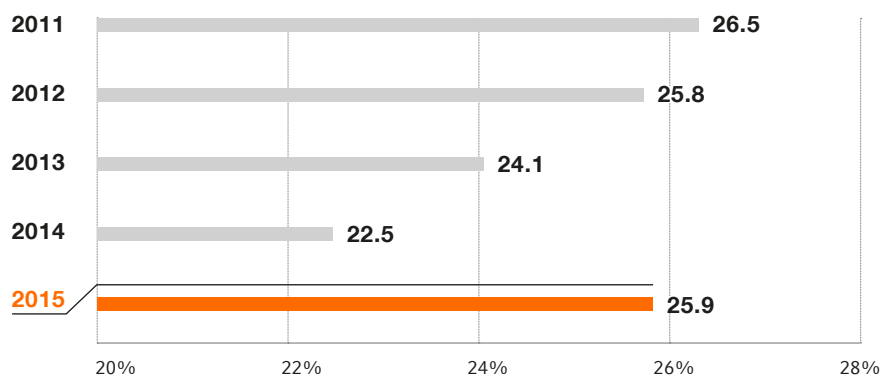
EBIT comprises the following expenses from equity-settled share-based payments. More information can be found in the notes.

17 SHARE-BASED COMPENSATION EXPENSES PER FUNCTIONAL AREA

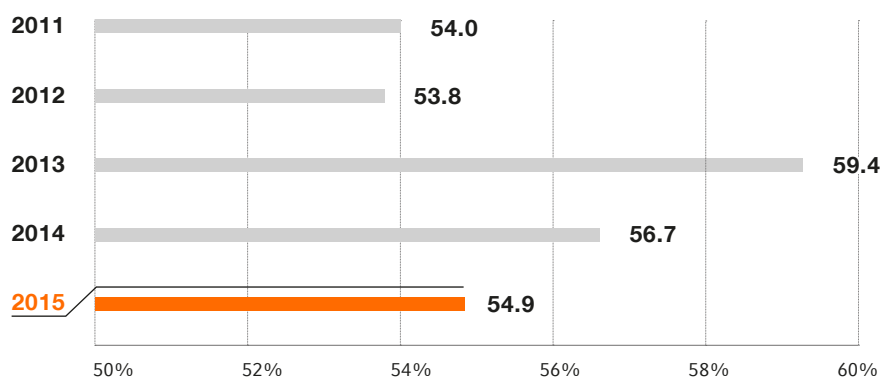
IN EUR M	JAN 1–DEC 31, 2015	JAN 1–DEC 31, 2014	CHANGE
Equity-settled share-based compensation expenses	17.9	19.8	-1.9
Cost of sales	4.5	4.4	0.1
Selling and distribution costs	9.0	9.6	-0.6
thereof marketing costs	4.5	4.1	0.4
thereof fulfillment costs	4.5	5.5	-1.0
Administrative expenses	4.5	5.8	-1.3

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

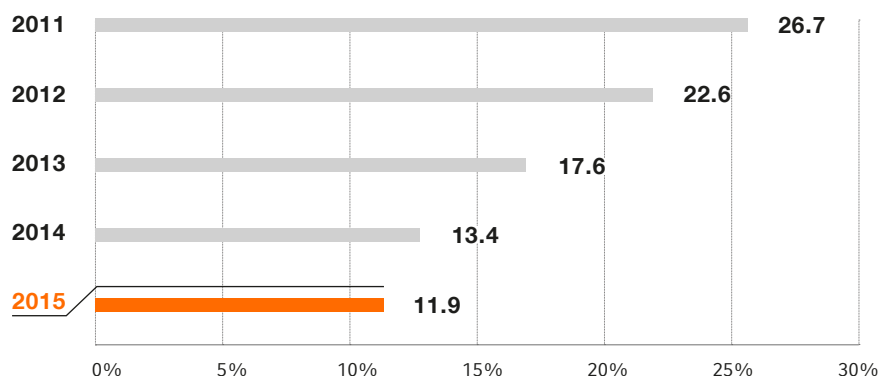
15 FULFILLMENT COSTS (IN % OF REVENUE)



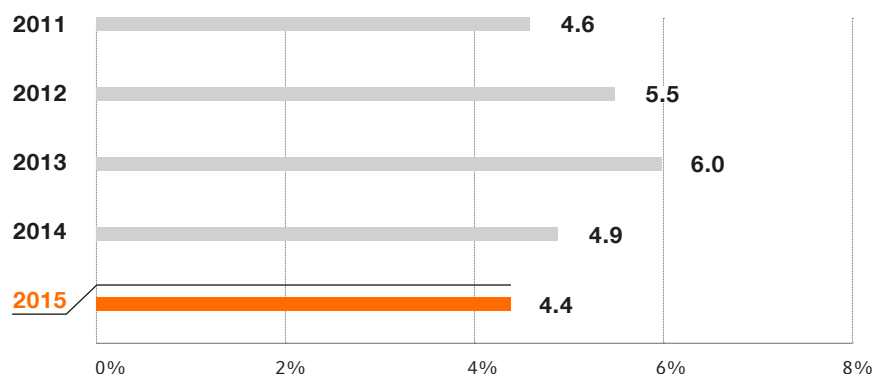
16 COST OF SALES (IN % OF REVENUE)



17 MARKETING COSTS (IN % OF REVENUE)



18 ADMINISTRATIVE EXPENSES (IN % OF REVENUE)



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

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

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

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

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

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

RESULTS BY SEGMENT

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

18 GROUP SEGMENT RESULTS

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

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

19 SHARE-BASED COMPENSATION EXPENSES PER SEGMENT

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

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

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

FINANCIAL POSITION

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

20 CONDENSED STATEMENT OF CASH FLOWS

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

In the past fiscal year Zalando generated a positive cash flow from operating activities of EUR 119.4m (prior year: EUR 174.8m). Despite an improvement in net income (which rose from EUR 47.1m in the prior year to EUR 121.5m in the reporting year), the cash flow from operating activities decreased, largely due to the non-cash recognition of deferred tax assets on unused



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tax losses. Furthermore cash flow was influenced by lower cash inflow from working capital, cash outflows for VAT liabilities and receivables, as well as lower cash inflows from recognizing reimbursement obligations towards customers.

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

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

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

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

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

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

CREDIT FACILITY

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

NET ASSETS

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

21 ASSETS

IN EUR M	31.12.2015		31.12.2014		CHANGE	
Non-current assets	253.1	12.0%	194.0	10.9%	59.1	30.5%
Current assets	1,863.5	88.0%	1,591.6	89.1%	271.9	17.1%
Total assets	2,116.5	100.0%	1,785.5	100.0%	331.0	18.5%

22 EQUITY AND LIABILITIES

IN EUR M	31.12.2015		31.12.2014		CHANGE	
Equity	1,271.4	60.1%	1,126.7	63.1%	144.7	12.8%
Non-current liabilities	31.3	1.5%	30.9	1.7%	0.4	1.3%
Current liabilities	813.8	38.5%	627.9	35.2%	185.9	29.6%
Total equity and liabilities	2,116.5	100.0%	1,785.5	100.0%	331.0	18.5%

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

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

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

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

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

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



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

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

OVERALL ASSESSMENT

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

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

02.2.4 EMPLOYEES

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

Additional information regarding our sustainability strategy is provided in the separate sustainability report. For more information we refer to section 01.7.²²



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

02.3 SUBSEQUENT EVENTS

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

02.4 RISK AND OPPORTUNITY REPORT

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

02.4.1 INTEGRATED RISK AND OPPORTUNITY MANAGEMENT SYSTEM

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

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

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

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

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

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

02.4.2 COUNTERMEASURES AND INTERNAL CONTROL SYSTEM

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

SYSTEM OF INTERNAL FINANCIAL REPORTING CONTROLS

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

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



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02.4.3 RISK REPORTING AND METHODOLOGY

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

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

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

23 RISK CLASSES

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

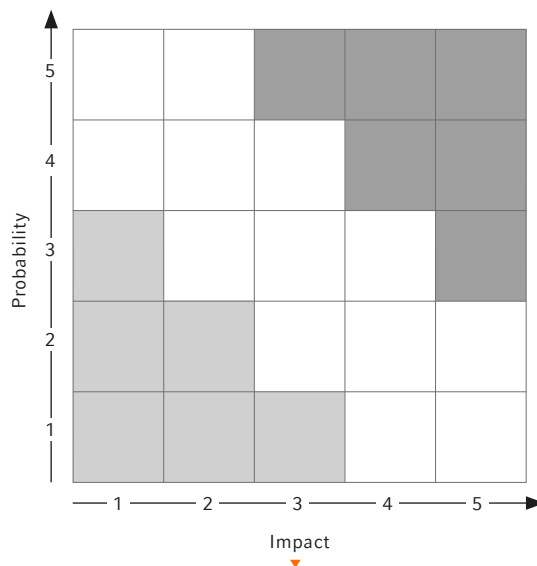
In addition, risks that exceed EUR 250m are denoted specifically as risks that could jeopardize the company's ability to continue as a going concern.

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

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

24 PROBABILITY OF OCCURENCE (WITHIN THE FOLLOWING YEAR)

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



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25 QUALITATIVE IMPACT (ALTERNATIVE)

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

26 QUANTITATIVE IMPACT (PREFERRED)

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

02.4.4 FORMER REPORTING STRUCTURE

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

27 RISK OVERVIEW

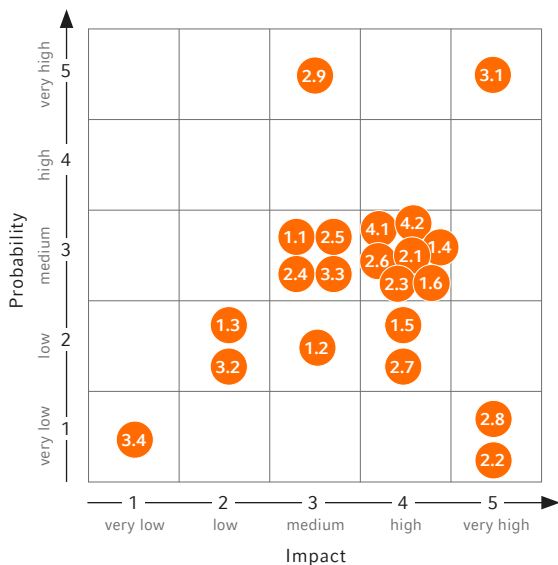
		PROBABILITY		IMPACT		OVERALL CHANGE
1	Economic and strategic risks					
1.1	Overall economic risks	medium	↓	medium	↑	↻
1.2	Competitive risks	low	=	medium	=	=
1.3	Demand risks	low	=	low	=	=
1.4	Risks arising from technological progress and innovation	medium	=	high	=	=
1.5	Marketing risks	low	=	high	↓	↓
1.6	Reputation risks	medium	↓	high	↑	↻
2	Operational risks					
2.1	Logistics risks	medium	↓	high	=	↓
2.2	Risks arising from the setup of own fulfillment sites	very low	↓	very high	=	↓
2.3	Inventory risks	medium	↓	high	↓	↓
2.4	Supplier and partner risks	medium	=	medium	=	=
2.5	IT risks	medium	↓	high	↓	↓
2.6	Personnel risks	medium	↓	high	↓	↓
2.7	Information risks	low	↓	high	↑	↻
2.8	Risks from emergencies and crises (Infrastructure)	very low	=	very high	=	=
2.9	Risks from emergencies and crises (Technology & IT)	very high	↑	medium	=	↑
3	Financial risks					
3.1	Default risks	very high	=	very high	↑	↑
3.2	Financing and liquidity risks	low	↓	low	=	↓
3.3	Currency risks	medium	↑	medium	=	↑
4	Legal and regulatory risks					
4.1	Legal risks	medium	↓	high	=	↓
4.2	Product quality risks	medium	↓	high	↑	↻

↓ Decrease ↑ Increase

= No change ↻ Insignificant change

Graphic overview:

19 RISK OVERVIEW – NET RISK MATRIX



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

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

02.4.5 OVERVIEW OF CURRENT RISKS AND OPPORTUNITIES

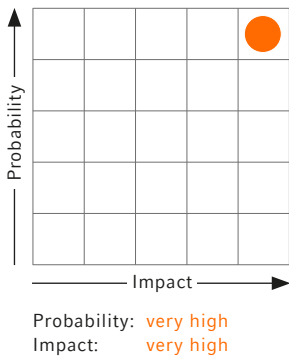
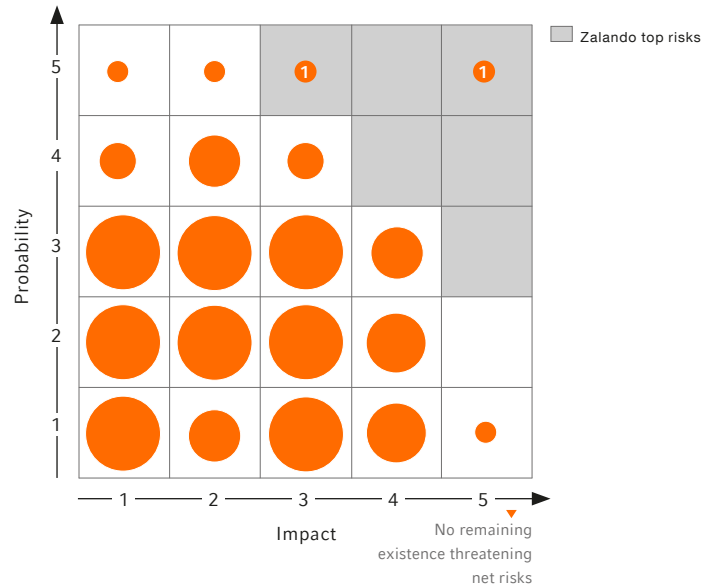
In general, it cannot be ruled out that potential risks which are currently unknown or considered to be insignificant at present may negatively impact business in the future. Despite all counter-measures implemented to manage the identified risks, residual risks for all corporate activities that cannot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

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

RISKS WITH HIGH PROBABILITY AND HIGH IMPACT (TOP RISKS)

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

20 NUMBER OF NET RISKS



RISKS FROM BAD DEBTS / EXTERNAL FRAUD

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

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

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

RISKS WITH FOCUS ON TECHNOLOGY

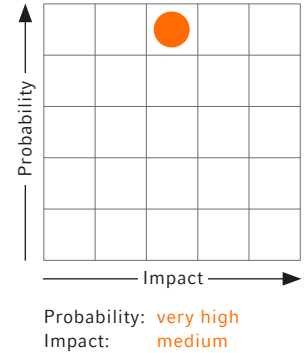
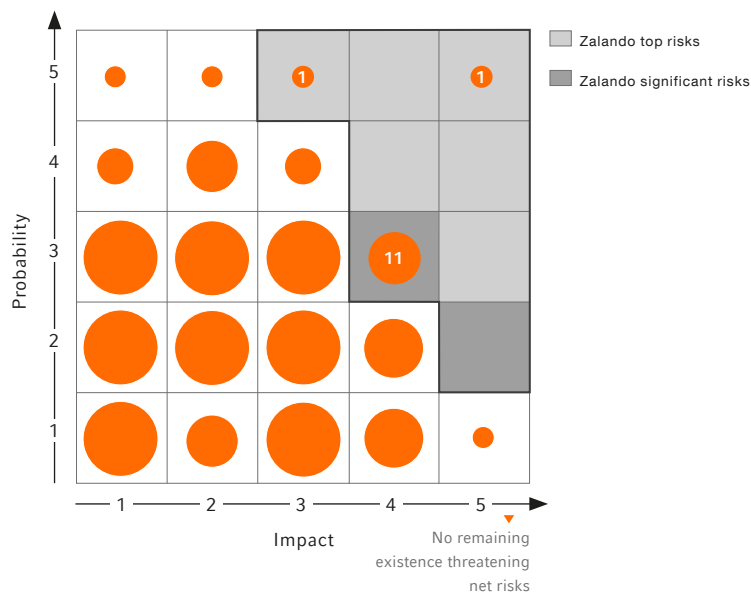
As an e-commerce company, Zalando is extremely dependent on the functionality and stability of various online sites. Disruptions or outages would lead directly to revenue losses. The risk of unstable IT systems also applies to merchandise management and logistics. Interrupted work-flows or inconsistent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

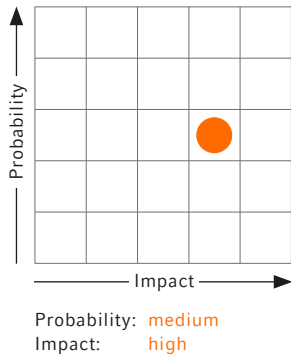
We use configuration management, application management and automated tests as essential countermeasures of managing the risk. Furthermore, Zalando uses monitoring systems and establishes and documents incident management processes. A risk management system has been implemented for applications and systems.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

EXPANDED RISK AND OPPORTUNITY AREA

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

These significant risks pertain to:

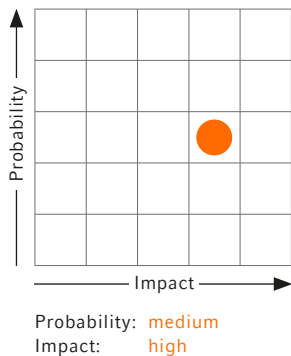
**21 NUMBER OF NET RISKS**



RISKS FROM INEFFICIENT INTERNAL PROCESSES AT FULFILLMENT CENTERS

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

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



RISKS FROM INACCURATE PERSONNEL AND CAPACITY FORECASTS FOR FULFILLMENT CENTERS

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

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

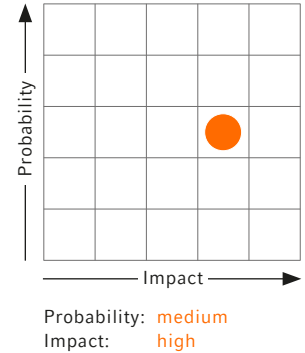
- Continuous planning
- Shifting resources from inbound to outbound processes and vice versa at warehouses
- Shift capacity utilization between warehouse locations
- Redirecting returned articles to other warehouse locations or service providers
- Utilizing flexibility options of employed personnel (e.g.,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

RISK OF STRIKE

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

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

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

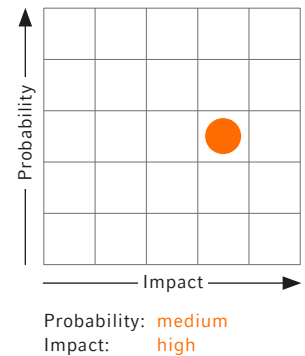


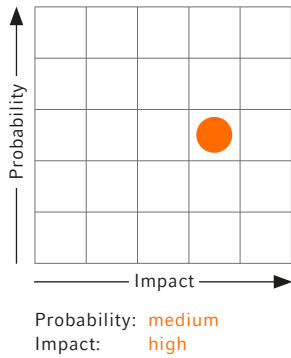
RISKS FROM INACCURATE FORECASTS AND PLANNING WITHIN CATEGORY MANAGEMENT

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

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

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

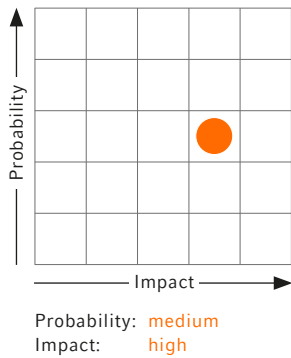




RISKS FROM HAZARDOUS MATERIAL / CONDITIONS IN PRODUCTION WITH REGARD TO PRIVATE LABELS

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

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



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

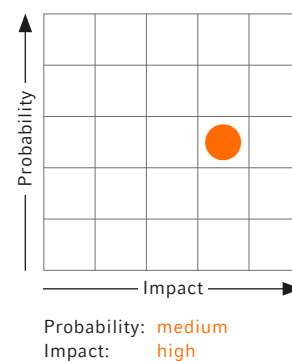
The delivery of goods in perfect condition is critical to the success of the company. Product recalls, product liability cases and social responsibility violations can adversely affect the company's reputation.

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

RISKS OF MISSED OPPORTUNITIES FROM DEFICIENT BRANDING OF PRIVATE LABELS

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

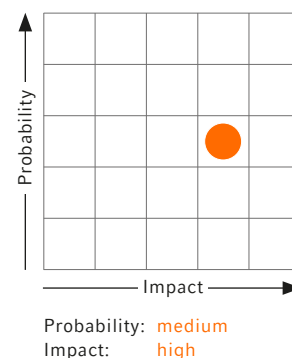
The respective brand teams allocate appropriate items selected from the entire product range to each brand to create a unique brand image. To enhance the marketing activities for the various brands appropriately, targeted customer analyses were performed to support the associated decision-making. Moreover,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



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

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

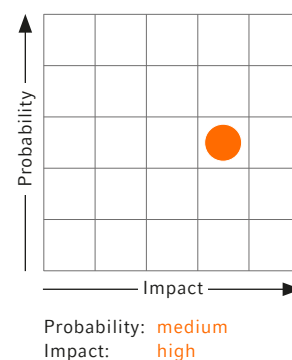
A significant overarching countermeasure is the establishment of the Onsite Experience team. The team coordinates the relevant adjustments with stakeholders and ensures the continuous development of the shop.

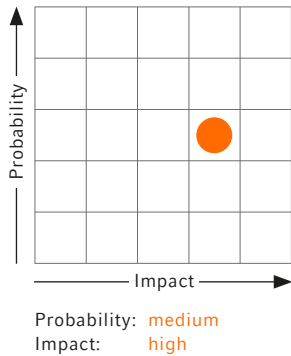


RISKS FROM SCARCITY OF RESOURCES AT FULFILLMENT CENTERS

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

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



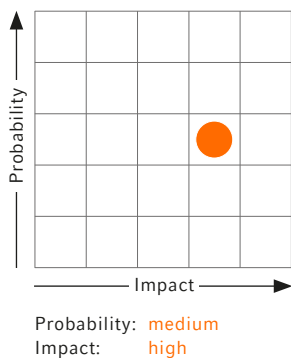


RISKS FROM ZALANDO'S LACK OF INNOVATION CAPABILITIES OR MISSED PRODUCT INNOVATIONS

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

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

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



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

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

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

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

FINANCIAL RISKS

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

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

DEFAULT RISKS

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

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

FINANCING AND LIQUIDITY RISKS

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

CURRENCY RISKS

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

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

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

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

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

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



SKIP TO P. 123



CORPORATE STRATEGY P. 10

MARKET OPPORTUNITIES AND GENERAL OPPORTUNITIES

MACROECONOMIC DEVELOPMENT

Economic projections about the 2016 development in the euro zone assume growth above 1% compared to prior-year figures. Private consumption is expected to be one of the main drivers of the growth during the forecast period. Experts believe that the disposable income in real terms will increase at a similarly steady pace, due to only slight increases in inflation and positive signals from job markets across important European economies.²³

An upward trend is also forecast for Germany. Similar to the Rest of Europe, strong employment levels and a noticeable increase in wages and salaries coupled with low inflation should drive private consumption that will translate into further growth.²⁴ These developments give Zalando the opportunity to capitalize on a potentially favorable consumer climate arising from the growing economy and further reinforce its market position and increase revenue.

GROWING FASHION MARKET IN EUROPE

The fashion market in Europe (excluding Russia) is large, with consumer expenditure of around EUR 417bn in 2015. Online fashion sales made up roughly EUR 46bn of this total. This represents a relative share of approximately 11% of all fashion retail.²⁵ The overall market for fashion in Europe (excluding Russia) remained virtually unchanged between 2010 and 2015, while online fashion sales grew at a considerably faster rate with average annual growth (CAGR)²⁶ of approx. 16% between 2010 and 2015.²⁷ This trend is forecast to continue, as the percentage of people in the overall population who are already familiar with digital technology at a young age will continue to rise.

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

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

The consistent focus of the business model on e-commerce combined with a product range tailored to market needs and a consistent customer focus offers Zalando an opportunity to further increase its revenue and market share. Using targeted marketing activities, Zalando seeks to increase its brand awareness, win new customers and retain existing ones for the long term. The strategic realignment as a platform offers Zalando new, more extensive growth opportunities. Moreover, Zalando can continue to exploit the high online market potential for European fashion through its presence, which now extends to 15 European countries, and the constant expansion of its own product range and other brands.²⁸

²³) DIW (Deutsches Institut für Wirtschaftsforschung e.V.), DIW Economic Bulletin 50–52.2015, p. 655 f.)

²⁴) Ifw Kiel: Kieler Konjunkturberichte No 14 (2015|Q4), Deutsche Konjunktur im Winter 2015 (German only)

²⁵) Euromonitor International

²⁶) CAGR stands for "Compounded Annual Growth Rate" and refers to the year-on-year growth rate over a specific period of time

The compounded annual growth rate is calculated by taking the nth root of the total percentage growth rate, where n is the number of years in the period under review

²⁷) Euromonitor International

²⁸) Euromonitor International

MOBILE COMMERCE

Mobile devices have made a considerable contribution to the strong growth in online retail trade. This also applies to fashion sales, as customers have access to fashion products at any time and from virtually anywhere. Retail sales generated by mobile devices have grown strongly in Western Europe, from roughly EUR 3.8bn in 2011 to almost EUR 47bn in 2015. It is anticipated that this revenue will grow at an annual average growth rate of 18% to reach EUR 106bn in 2020.²⁹

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

SCALABLE LOGISTICS

The scalable logistics infrastructure is currently composed of three fulfillment centers in Brieselang, Erfurt and Mönchengladbach, which are strategically positioned within Germany to efficiently supply customers throughout Europe. A fourth fulfillment center in Lahr, southern Germany is currently under construction. Here Zalando has once again undertaken all the development work for the fulfillment center itself. This location in southern Germany is intended to follow the rising demand of customers and increase Zalando's capacity. Not only customers in southern Germany will profit from the new location in Lahr but also customers in France and Switzerland. In addition, another fulfillment center operated by a service provider was opened in Italy in December, from which customers in Italy can be served more rapidly. According to Zalando's estimates, approximately 65% of the European population and around 85% of Zalando's active customers live within a radius of 750 km (or a nine-hour truck drive) from the existing three fulfillment centers. With floor space of 290,000 m², the current fulfillment centers make it possible to process higher revenue volumes than in fiscal year 2014.

INNOVATIVE LOGISTICS

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

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

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



FURTHER INFORMATION
CORE CAPABILITIES P. 34



FURTHER INFORMATION
CORE CAPABILITIES P. 36

29) Euromonitor International

SMART DATA

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

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



FURTHER INFORMATION
CORE CAPABILITIES P. 33

INNOVATIVE TECHNOLOGY

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

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

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

LOCAL ALIGNMENT

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

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

FASHION EXPERTISE

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

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

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

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

AN ATTRACTIVE PARTNER

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

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



FURTHER INFORMATION
BRAND AND MERCHANT
PRODUCTS P. 24

PERSONNEL OPPORTUNITIES

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

02.5 OUTLOOK



WWW.EUROMONITOR.COM

02.5.1 FUTURE OVERALL ECONOMIC AND INDUSTRY-SPECIFIC SITUATION

European online retail is expected to see continued strong growth. For example, the European retail industry is expected to achieve year-on-year growth of just above 1% in 2016, while online retail is expected to grow over 10%. The picture in Germany is similar. Retail is forecast to grow roughly 1% in 2016, whereas **internet trade is expected to increase by over 11%.**³⁰

The total fashion industry in Europe and Germany is expected to have another rather weak year in 2016. Fashion sales in Europe are expected to stagnate (growth of 0.3% to the prior year), while fashion sales in Germany are even expected to decline slightly (decline of 0.2%).³¹ In contrast, online fashion sales are expected to grow significantly faster in Europe and in Germany. Online fashion sales in Europe are expected to increase by approximately 8% in 2016, while predictions for Germany assume that the market will grow by almost 9% compared with the previous year.³²

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

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

³⁰⁾ Euromonitor International, retail segment including grocery retailers

³¹⁾ Euromonitor International

³²⁾ Euromonitor International, forecast of online fashion includes apparel, footwear, personal accessories, eyewear and writing instruments

02.5.2 FUTURE DEVELOPMENT OF THE GROUP



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

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

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

02.5.3 OVERALL ASSESSMENT BY THE MANAGEMENT BOARD OF ZALANDO SE



END OF THE QUICK READER
INFORMATION

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

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

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

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

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



CORPORATE STRATEGY P. 10

02.6.1 BUSINESS ACTIVITY

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

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

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

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

The services it provides comprise administrative and IT services.

02.6.2 ECONOMIC SITUATION OF ZALANDO SE

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

28 INCOME STATEMENT OF ZALANDO SE

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

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

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

29 REVENUE OF ZALANDO SE BY SEGMENT

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

*} As in fiscal 2015, DACH countries include Germany, Austria and Switzerland

**} As in fiscal 2015, the Rest of Europe comprises the Netherlands, France, Italy, the United Kingdom, Poland, Belgium, Sweden, Finland, Denmark, Spain, Norway and Luxembourg

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

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

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

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

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

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

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

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

NET ASSETS AND FINANCIAL POSITION

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

30 ASSETS OF ZALANDO SE

IN EUR M	DEC 31, 2015		DEC 31, 2014		CHANGE
Non-current assets	205.5	9.8%	153.8	8.6%	51.7
Current assets	1,840.0	87.7%	1,624.9	91.1%	215.1
Prepaid expenses	6.9	0.3%	5.3	0.3%	1.6
Deferred tax assets	46.3	2.2%	0.0	0.0%	46.3
Total assets	2,098.7	100.00%	1,784.0	100.0%	314.7

31 EQUITY AND LIABILITIES OF ZALANDO SE

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

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

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

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

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

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

32 CONDENSED STATEMENT OF CASH FLOWS OF ZALANDO SE

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

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

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

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

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

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

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

02.6.3 RISKS AND OPPORTUNITIES

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



FURTHER INFORMATION
RISK AND OPPORTUNITY
REPORT P. 104

02.6.4 OUTLOOK

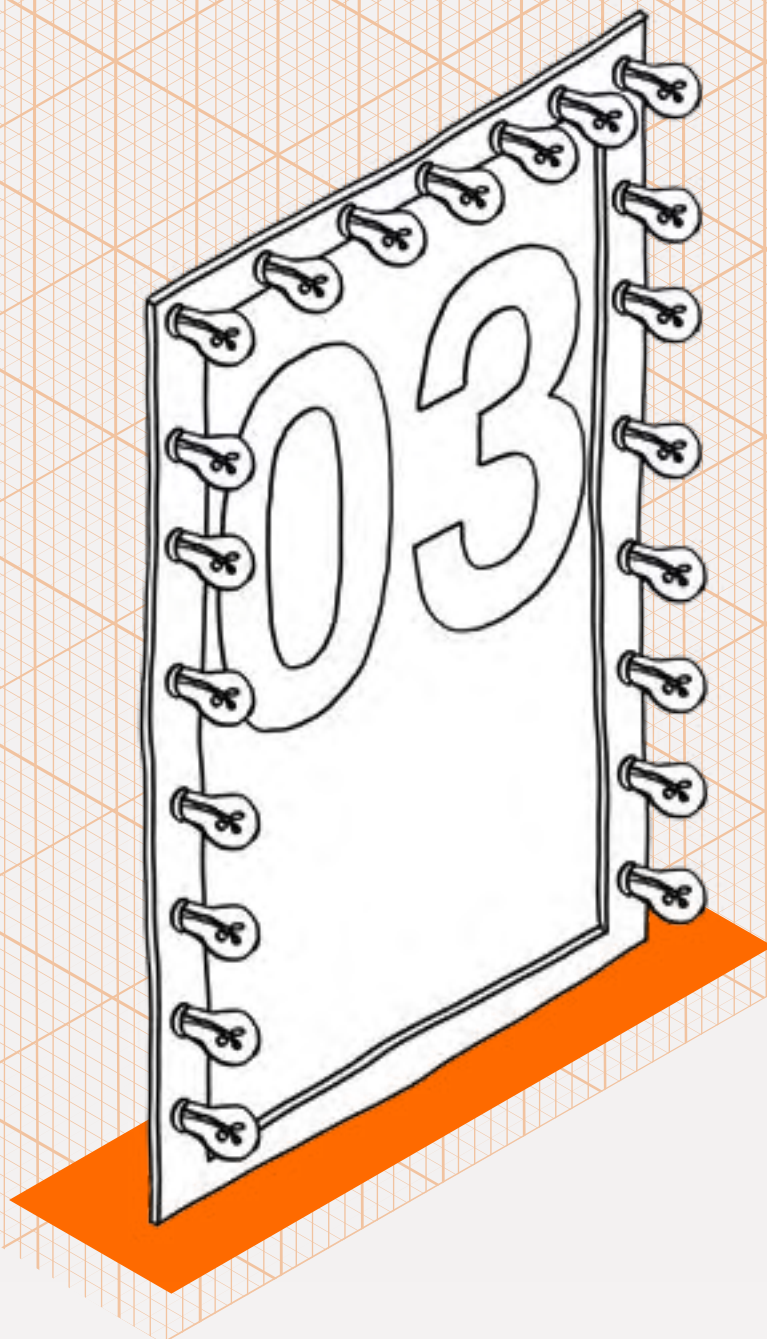
The statements made on market trends and the development of revenue and the results for the group also apply here by virtue of the close ties between ZALANDO SE and the group companies and its weight within the group. The statements also reflect the expectations for the parent company.

Berlin, February 29, 2016

Robert Gentz

David Schneider

Rubin Ritter



03

CONSOLIDATED FINANCIAL STATEMENTS

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03.1 CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME



FURTHER INFORMATION
NOTES TO THE CONSOLIDATED
STATEMENT OF COMPREHENSIVE
INCOME P. 156

33 CONSOLIDATED INCOME STATEMENT

IN EUR M	NOTES	JAN 1–DEC 31, 2015	JAN 1–DEC 31, 2014
Revenue	(1.)	2,958.2	2,214.0
Cost of sales	(2.)	–1,624.0	–1,255.3
Gross profit		1,334.1	958.7
Selling and distribution costs	(3.)	–1,118.9	–793.8
Administrative expenses	(4.)	–129.0	–109.2
Other operating income	(5.)	10.2	12.2
Other operating expenses	(6.)	–7.0	–5.8
Earnings before interest and taxes (EBIT)		89.6	62.1
Interest and similar income		1.2	0.2
Interest and similar expenses		–6.1	–4.6
Result of investments accounted for using the equity method		–1.6	0.0
Other financial result		3.5	–0.1
Financial result	(7.)	–3.0	–4.5
Earnings before taxes (EBT)		86.6	57.6
Income taxes	(8.)	34.9	–10.5
Net income for the period		121.5	47.1
Thereof net income attributable to the shareholders of ZALANDO SE		121.5	47.1
Net income for the period as percentage of revenue		4.1%	2.1%
Basic earnings per share (in EUR)	(9.)	0.49	0.21
Diluted earnings per share (in EUR)	(9.)	0.48	0.20

34 CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

IN EUR M	JAN 1–DEC 31, 2015	JAN 1–DEC 31, 2014
Net income for the period	121.5	47.1
Items recycled to profit or loss in subsequent periods		
Effective portion of gains/losses from cash flow hedges, net of tax	0.4	1.2
Exchange differences on translation of foreign financial statements	0.0	0.1
Other comprehensive income	0.4	1.3
Total comprehensive income	121.9	48.4
Thereof total comprehensive income attributable to the shareholders of ZALANDO SE	121.9	48.4



FURTHER INFORMATION
NOTES TO THE CONSOLIDATED
STATEMENT OF FINANCIAL
POSITION P. 156

03.2 CONSOLIDATED STATEMENT OF FINANCIAL POSITION

35 CONSOLIDATED STATEMENT OF FINANCIAL POSITION – ASSETS

IN EUR M	NOTES	DEC 31, 2015	DEC 31, 2014
Non-current assets			
Intangible assets	(11.)	48.8	29.0
Property, plant and equipment	(12.)	128.2	111.0
Financial assets	(13.)	17.6	49.4
Deferred tax assets	(8.), (27.)	47.5	0.9
Non-financial assets	(13.)	3.5	3.7
Investments accounted for using the equity method	(14.)	7.4	0.0
		253.1	194.0
Current assets			
Inventories	(15.)	493.5	348.3
Prepayments	(15.)	1.4	0.9
Trade and other receivables	(16.)	149.7	140.1
Other financial assets	(17.)	175.9	13.6
Other non-financial assets	(17.)	66.7	37.6
Cash and cash equivalents	(18.)	976.2	1,051.0
		1,863.5	1,591.5
Total assets		2,116.5	1,785.5

36 CONSOLIDATED STATEMENT OF FINANCIAL POSITION – EQUITY AND LIABILITIES

IN EUR M	NOTES	DEC 31, 2015	DEC 31, 2014
Equity			
Issued capital		247.0	244.8
Capital reserves		1,140.9	1,120.4
Other reserves		1.4	1.0
Accumulated loss		-118.0	-239.5
	(19.)	1,271.4	1,126.7
Non-current liabilities			
Provisions	(21.)	9.1	5.8
Government grants	(22.)	1.8	3.0
Borrowings	(25.)	14.4	17.6
Other financial liabilities	(24.)	2.1	0.6
Other non-financial liabilities	(24.)	3.1	1.3
Deferred tax liabilities	(8.), (27.)	0.8	2.6
		31.3	30.9
Current liabilities			
Provisions	(21.)	0.0	0.5
Borrowings	(25.)	3.2	3.2
Trade payables and similar liabilities	(23.)	645.8	492.1
Prepayments received	(23.)	8.6	6.7
Income tax liabilities		18.2	6.1
Other financial liabilities	(24.)	71.8	61.9
Other non-financial liabilities	(24.)	66.1	57.4
		813.8	627.9
Total equity and liabilities		2,116.5	1,785.5

03.3 CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

37 CONSOLIDATED STATEMENT OF CHANGES IN EQUITY 2015

IN EUR M	NOTES	ISSUED CAPITAL	CAPITAL RESERVES
As of Jan 1, 2015		244.8	1,120.4
Net income for the period		0.0	0.0
Other comprehensive income		0.0	0.0
Total comprehensive income		0.0	0.0
Capital increase	(19.)	2.3	4.1
Transaction costs less taxes	(27.)	0.0	2.5
Repurchase of treasury shares	(19.)	-0.1	-1.7
Reversal of claims to share based-payments	(20.)	0.0	-2.3
Share-based payments	(20.)	0.0	17.9
As of Dec 31, 2015		247.0	1,140.9

38 CONSOLIDATED STATEMENT OF CHANGES IN EQUITY 2014

IN EUR M	NOTES	ISSUED CAPITAL	CAPITAL RESERVES
As of Jan 1, 2014		0.1	833.3
Net income for the period		0.0	0.0
Other comprehensive income		0.0	0.0
Total comprehensive income		0.0	0.0
Capital increase	(19.)	24.6	500.8
Capital increase from company funds	(19.)	220.1	-220.1
Transaction costs less taxes	(19.)	0.0	-13.4
Share-based payments	(20.)	0.0	19.8
As of Dec 31, 2014		244.8	1,120.4

OTHER RESERVES

	CASH FLOW HEDGES	CURRENCY TRANSLATION	ACCUMULATED LOSSES	TOTAL
	1.0	0.0	-239.5	1,126.7
	0.0	0.0	121.5	121.5
	0.4	0.0	0.0	0.4
	0.4	0.0	121.5	121.9
	0.0	0.0	0.0	6.4
	0.0	0.0	0.0	2.5
	0.0	0.0	0.0	-1.7
	0.0	0.0	0.0	-2.3
	0.0	0.0	0.0	17.9
	1.4	0.0	-118.0	1,271.4

OTHER RESERVES

	CASH FLOW HEDGES	CURRENCY TRANSLATION	ACCUMULATED LOSSES	TOTAL
	-0.1	-0.1	-286.6	546.5
	0.0	0.0	47.1	47.1
	1.2	0.1	0.0	1.3
	1.2	0.1	47.1	48.4
	0.0	0.0	0.0	525.4
	0.0	0.0	0.0	0.0
	0.0	0.0	0.0	-13.4
	0.0	0.0	0.0	19.8
	1.0	0.0	-239.5	1,126.7

03.4 CONSOLIDATED STATEMENT OF CASH FLOWS

39 CONSOLIDATED STATEMENT OF CASH FLOWS

IN EUR M	NOTES	DEC 31, 2015	DEC 31, 2014
1. Net income for the period		121.5	47.1
2. + Non-cash expenses from share-based payments	(20.)	17.9	19.8
3. – Cash paid for settlement of claims from share-based payments	(20.)	–2.3	0.0
4. + Depreciation of property, plant and equipment and amortization of intangible assets	(11.), (12.)	34.2	25.8
5. +/- Income taxes	(8.)	–34.9	10.5
6. – Income taxes paid, less refunds		0.0	–0.2
7. +/- Increase/decrease in provisions	(21.)	–0.5	1.0
8. –/+ Other non-cash income/expenses		–1.0	–0.2
9. +/- Decrease/increase in inventories	(15.)	–145.2	–15.8
10. +/- Decrease/increase in trade and other receivables	(16.)	–9.0	–52.9
11. +/- Increase/decrease in trade payables and similar liabilities	(23.)	154.9	94.9
12. +/- Increase/decrease in other assets/liabilities		–16.2	44.7
13. = Cash flow from operating activities	(26.)	119.4	174.8
14. – Cash paid for investments in property, plant and equipment	(12.)	–31.0	–29.5
15. – Cash paid for investments in intangible assets	(11.)	–29.0	–21.5
16. – Cash paid for acquisitions of shares in associated companies and acquisition of companies and prepayments for such acquisitions	(14.)	–16.8	0.0
17. – Cash paid for investments in term deposits	(17.)	–155.0	0.0
18. +/- Change in restricted cash	(13.)	35.3	–0.8
19. = Cash flow from investing activities	(26.)	–196.5	–51.8
20. + Cash received from capital increases by the shareholders less transaction costs	(19.)	6.4	510.1
21. – Repurchase of treasury shares	(19.)	–1.7	0.0
22. + Cash received from loans	(25.)	0.0	3.9
23. – Cash repayments of loans	(25.)	–3.2	–3.2
24. = Cash flow from financing activities		1.5	510.8
25. = Net change in cash and cash equivalents from cash relevant transactions		–75.7	633.8
26. +/- Change in cash and cash equivalents due to exchange rate movements		0.9	0.0
27. + Cash and cash equivalents at the beginning of the period		1,051.0	417.2
28. = Cash and cash equivalents as of Dec 31		976.2	1,051.0

Interest paid and received included in cash flow from operating activities:

40 CASH-RELEVANT INTERESTS

IN EUR M	JAN 1-DEC 31, 2015	JAN 1-DEC 31, 2014
Interest paid	-6.3	-4.9
Interest received	0.7	0.1
Total	-5.6	-4.8

The calculation below shows the calculation of the free cash flow based on the cash flow from operating activities.

41 FREE CASH FLOW

IN EUR M	JAN 1-DEC 31, 2015	JAN 1-DEC 31, 2014
Cash flow from operating activities	119.4	174.8
Cash paid for investments in property, plant and equipment	-31.0	-29.5
Cash paid for investments in intangible assets	-29.0	-21.5
Cash paid for acquisitions of shares in associated companies and acquisition of companies and prepayments for such acquisitions	-16.8	0.0
Free cash flow	42.6	123.8

03.5 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

03.5.1 COMPANY INFORMATION

COMPANY NAME, REGISTERED OFFICE

ZALANDO SE is the parent of the Zalando group ("Zalando" or the "group"). The company was filed in the commercial register at the Berlin-Charlottenburg district court on May 28, 2014 (HRB 158855 B). ZALANDO SE's registered offices are located at Tamara-Danz-Str. 1 in 10243 Berlin.

NATURE OF OPERATING ACTIVITIES

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

Zalando cooperates with more than 1,500 brand manufacturers to offer an assortment ranging from global brands and local and fast-fashion brands through to self-designed private labels. Zalando's offering has been extended and enhanced with the Zalando Lounge, which offers registered members special offers at reduced prices. The brick and mortar outlet stores in Berlin and Frankfurt am Main opened in 2012 and 2014, respectively, and serve as additional sales channels for remaining stock. The parent company, ZALANDO SE, was founded in 2008 and has its registered offices in Berlin. The Zalando shops are tailored to the local customer needs in 15 different European markets: Belgium, Germany, Denmark, Finland, France, Italy, Luxembourg, Netherlands, Norway, Austria, Poland, Sweden, Switzerland, Spain and the United Kingdom.

03.5.2 GENERAL PRINCIPLES

APPLICATION OF IFRS

The consolidated financial statements of ZALANDO SE for the fiscal year from January 1 to December 31, 2015 were compiled in accordance with the International Financial Reporting Standards (IFRSs) as adopted by the EU. In addition, the provisions of section 315a (1) HGB ["Handelsgesetzbuch": German Commercial Code] have been taken into account.

The consolidated financial statements take into account all IFRSs endorsed as of the reporting date and whose adoption is mandatory in the European Union. Compliance with the standards and interpretations gives a true and fair view of the group's financial performance and position.

GENERAL INFORMATION

In principle, the consolidated financial statements have been prepared by accounting for assets and liabilities at amortized cost. Excluded from this are certain financial instruments which are measured at fair value. The income statement within the statement of comprehensive income was prepared using the function of expense method. Assets and liabilities are classified based on their maturities.

The fiscal year is the calendar year. The consolidated financial statements are presented in euros. Due to rounding, it is possible that figures may not add up exactly to the total stated and the percentages presented may not precisely reflect the figures they correspond to.



03.5.3 NEW ACCOUNTING STANDARDS

EFFECTS OF NEW OR AMENDED IFRS, WHOSE APPLICATION IS RELEVANT FOR FISCAL YEAR 2015

The consolidated financial statements take into account all IFRSs endorsed as of the reporting date and whose adoption is mandatory in the European Union. Of the standards and amendments subject to mandatory adoption for the first time, only the standards and amendments described below affect Zalando's reporting.

IMPROVEMENTS TO INTERNATIONAL FINANCIAL REPORTING STANDARDS 2012

The improvements to International Financial Reporting Standards 2012 have been mandatory since February 1, 2015. These mainly contain minor amendments to a number of IFRSs (IFRS 2, IFRS 3, IFRS 8, IFRS 13, IAS 16/38, IAS 24). For Zalando, these improvements primarily require an extension of the disclosures in the notes concerning segment reporting. When merging operating segments into reportable segments, the underlying considerations made by management to identify reportable segments must be stated.

IMPROVEMENTS TO INTERNATIONAL FINANCIAL REPORTING STANDARDS 2013

The improvements to International Financial Reporting Standards 2013 have been mandatory since January 1, 2015. These mainly contain minor amendments to a number of IFRSs (IFRS 1, IFRS 3, IFRS 13, IAS 40). These improvements did not result in any major changes for Zalando.

The other accounting standards subject to first-time application in fiscal year 2015 have not had any material impact on Zalando's financial performance and position.

NEW OR AMENDED IFRSs NOT APPLIED

The following accounting standards had already been issued by the IASB as of the time the financial statement were authorized for issue, but their adoption is not yet mandatory and they have not yet been adopted by Zalando.

STANDARD/ INTERPRETATION	IMPENDING CHANGE
Improvements to International Financial Reporting Standards 2014	Minor amendments to a number of IFRSs (IFRS 5, IFRS 7, IAS 19, IAS 34)
Amend- Presentation of financial statements to IAS 1	As a result of the IASB disclosure initiative, clarifications were made to IAS 1 with respect to the inclusion of materiality, the presentation of financial statements, in particular regarding subtotals as well as the order in which the disclosures in the notes to the financial statements are to be made.
Amend-ments to IAS 16 and IAS 38	Property, plant and equipment and intangible assets In the amendments, further guidance is provided regarding acceptable methods of depreciation and amortization.
IFRS 15	The core principle of IFRS 15 is that an entity recognizes revenue to reflect the transfer of goods or services to customers at an amount that represents the consideration to which the entity expects to receive. Revenue is recognized when the customer receives the power of disposal over the goods or services. IFRS 15 also contains guidance on the presentation of contract assets or contract liabilities. The standard also requires additional disclosures, including a disaggregation of total revenue, on performance obligations, on reconciliations of opening and closing balances of contract net assets and contract liabilities as well as on significant judgments and estimates.
IFRS 9	Revenue from contracts with customers IFRS 9 introduces a uniform approach for classifying and measuring financial assets. IFRS 9 relates to the characteristics of the cash flows and the business model by which these cash flows are managed. The standard also provides a new risk provision model that now also accounts for anticipated losses for the calculation of the risk provision. Moreover, IFRS 9 contains new regulations on hedge accounting in order to better present the risk management activities of an entity, in particular with regard to the management of non-financial risks.
IFRS 16	Financial instruments Leases IFRS 16 sets out the principles for the recognition, presentation and disclosure of leases. For the lessee, IFRS 16 introduces a single accounting model in contrast to IAS 17. The new model requires the lessee to recognize assets and liabilities from all leases in the statement of financial position except for leases with a lease term of 12 months or less or leases of low-value assets (option). For lessors, IFRS 16 continues to distinguish between finance leases and operating leases for accounting purposes.

The IASB has issued other (amendments of) accounting standards that are not listed and have not been applied and do not have any material impact on Zalando's financial performance and position.

IASB EFFECTIVE DATE	ENDORSED BY THE EU	ANTICIPATED EFFECTS
January 1, 2016, early adoption on a case-by-case basis	Yes	Application has no significant impact on the consolidated financial statements.
January 1, 2016, early adoption permitted	Yes	Application has no significant impact on the consolidated financial statements.
January 1, 2016, early adoption permitted	Yes	Application has no significant impact on the consolidated financial statements.
January 1, 2018, early adoption permitted	No	The company is currently examining the effects of applying IFRS 15 to the consolidated financial statements would have. Early adoption is currently not planned.
January 1, 2018, early adoption permitted	No	The company is currently examining the effects of applying IFRS 9 to the consolidated financial statements would have. Early adoption is currently not planned.
January 1, 2019, early adoption permitted	No	The company is currently examining the effects of applying IFRS 16 to the consolidated financial statements would have. Early adoption is currently not planned. Basically, for all lease payments, which are disclosed in section 03.5.8 Other notes – operating leases are subject to the new regulations.

03.5.4 PRINCIPLES OF CONSOLIDATION

BASIS OF CONSOLIDATION

The number of subsidiaries included in the basis of consolidation increased from 17 (prior year) to 24 on account of entities founded and acquired in fiscal year 2015. The acquisitions completed in fiscal year 2015 were not material.

REPORTING DATE OF THE CONSOLIDATED FINANCIAL STATEMENTS

The consolidated financial statements cover fiscal year 2015 on the basis of the reporting period from January 1 to December 31, 2015. Apart from abbreviated reporting periods due to the establishment of entities, the fiscal year of the consolidated entities also corresponds to the calendar year.

ACCOUNTING POLICIES

The basis of consolidation includes ZALANDO SE and its subsidiaries over which the company has control within the meaning of IFRS 10. The company has control of an investee when ZALANDO SE has direct or indirect power over the investee, exposure, or rights to variable returns from its involvement with the investee and the ability to use its power over the investee to affect those returns.

The separate financial statements of the entities included in the consolidated financial statements have been prepared on the basis of the parent company's uniform accounting policies.

Intercompany receivables and liabilities are offset against each other. Offsetting differences are recognized through profit or loss if they arose in the reporting period. The company eliminates intercompany profits or losses from intercompany supplies and services and recognizes deferred tax relief and tax expenses from consolidation entries through profit or loss. The consolidation of intercompany profits involves offsetting intercompany revenue and other intercompany income against the corresponding expenses.

Shares in associates are accounted for using the equity method. The investment is initially recorded at cost and subsequently updated to include any changes in the share of the investee's net assets attributable to the investor after the acquisition date. Associates are entities over which the investor has significant influence. Significant influence is the power to participate in the financial and operating policy decisions of the investee. The power to participate in the financial and operating policy decisions is to be distinguished from the control or joint control in decision-making processes. If an entity holds 20% or more of the voting rights in an investee, the investor is presumed to have significant influence unless it can be unambiguously refuted. If an entity holds less than 20% of the voting rights in an investee, the investor is not assumed to have significant influence unless it can be unambiguously substantiated.

The consolidation methods were applied unchanged compared to the prior year.

CURRENCY TRANSLATION

The consolidated financial statements are presented in euro, which is ZALANDO SE's functional currency and the presentation currency of the group. Transactions conducted in a currency other than the euro are translated into the functional currency using the historical rate on the date of the transaction.

Financial statements denominated in the foreign currency of foreign group entities are translated on the basis of the functional currency concept pursuant to IAS 21.

The assets and liabilities of subsidiaries whose functional currency is not the euro are translated to euro at the mean exchange rate prevailing as of the reporting date. Income and expenses in the statements of comprehensive income are translated into the euro at the annual average exchange rate pursuant to IAS 21.40. Exchange differences arising in the statement of financial position or statement of comprehensive income from exchange rate differences are accounted for as exchange differences on translation of foreign financial statements in other comprehensive income.

Monetary assets and liabilities of subsidiaries denominated in foreign currencies are translated at the functional currency spot rates of exchange as of the reporting date. Exchange differences are recognized through profit or loss.

Non-monetary items in a foreign currency are translated using historical rates.

42 FOREIGN EXCHANGE RATES

	ISO CODE	CLOSING RATE		ANNUAL AVERAGE RATE	
		DEC 31, 2015	DEC 31, 2014	2015	2014
British pound	GBP	0.7340	0.7789	0.7258	0.8061
Danish krone	DKK	7.4626	7.4453	7.4587	7.4548
Norwegian krone	NOK	9.6030	9.0420	8.9496	8.3544
Polish zloty	PLN	4.2639	4.2732	4.1841	4.1843
Swedish krona	SEK	9.1895	9.3930	9.3535	9.0985
Swiss franc	CHF	1.0835	1.2024	1.0679	1.2146
US dollar	USD	1.0887	1.2141	1.1095	1.3285

03.5.5 ACCOUNTING AND VALUATION PRINCIPLES

INTANGIBLE ASSETS

A distinction is made here between intangible assets with a finite useful life and intangible assets with indefinite useful lives.

Intangible assets with finite lives are amortized over the useful economic life and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortization period and the amortization method for an intangible asset with a finite useful life are reviewed at least at the end of each reporting period. Changes in the residual values or the respective useful lives are taken into consideration prospectively when measuring amortization.

Intangible assets are measured at amortized cost. Cost comprises all costs directly or indirectly allocable to the development process. All intangible assets, except for brands and domain rights, have a finite useful life. These are amortized over their useful life of three to eight years on a straight-line basis. The carrying amounts of brands and domain rights are immaterial from the group's perspective.

Internally generated intangible assets satisfying the prerequisites of IAS 38 Intangible Assets are recognized at development cost. Internally generated intangible assets are recognized if a newly developed product or newly developed software can be unambiguously identified, is technically feasible and is intended for own use. Other recognition requirements are the generation of probable future economic benefits and the ability to measure reliably the expenditure attributable to the intangible asset.

Capitalized development costs are amortized over an anticipated useful life of an average of three years. Amortization of the asset begins when development is complete and the asset is available for use. It is charged over the period of expected future benefit. Research costs are expensed in the period in which they arise.

The amortization expense on intangible assets with finite lives is recognized in the income statement in the expense category consistent with the function of the intangible asset.

Gains or losses arising from the disposal of intangible assets are measured as the difference between the net disposal proceeds and the carrying amount of the asset and are recognized in the income statement when the asset is derecognized.

PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment are recognized at cost and depreciated in accordance with their expected useful life using the straight-line method. Zalando treats changes in the residual values or useful lives that arise during use as a change in estimates. Depreciation is charged over the following useful lives.

43 USEFUL LIVES

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

An item of property, plant and equipment is derecognized upon disposal or when no further economic benefits are expected from its use or disposal. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in the income statement when the asset is derecognized.

The residual values, useful lives and methods of depreciation of property, plant and equipment are reviewed at the end of each fiscal year and adjusted prospectively, if appropriate.

IMPAIRMENT OF NON-FINANCIAL ASSETS

The group assesses at each reporting date whether there is any indication that a non-financial asset reported in the statement of financial position may be impaired. If any indication exists, or when annual impairment testing is required, the group carries out an impairment test.

CURRENT VERSUS NON-CURRENT CLASSIFICATION

The group classifies its assets and liabilities in the statement of financial position, as current and non-current assets or liabilities.

An **asset** is classified as current when:

- It is expected to be realized, or intended to be sold or consumed, within the normal operating cycle
- It is expected to be realized within 12 months after the reporting period or
- It is cash or a cash equivalent unless the asset is restricted from being exchanged or used to settle a liability for a period of at least 12 months.

All other assets are classified as non-current.

A **liability** is classified as current if:

- It is expected to be settled within the normal operating cycle
- It is expected to be realized within 12 months of the end of the reporting period or
- The company does not have an unconditional right to defer settlement of the liability for at least 12 months after the reporting period.

All other liabilities are classified as non-current. Deferred tax assets and liabilities are classified as non-current assets or liabilities.

LEASES – THE GROUP AS LESSEE

The determination of whether an arrangement is, or contains, a lease is based on the substance of the arrangement at the inception date. It requires an assessment of whether fulfillment of the arrangement is dependent on the use of a specific asset or assets or the arrangement conveys a right to use the asset or assets, even if that right is not explicitly specified in an arrangement.

A lease is classified as a finance lease if all risks and rewards incidental to ownership of the leased asset are transferred to the lessee. All other leases are classified as operating leases. Finance leases are recognized as assets and liabilities at the lower of fair value of the leased asset or the present value of minimum lease payments at the inception of the lease. Minimum lease payments are to be apportioned between the finance charge and the reduction of the outstanding liability so as to achieve a constant rate of interest on the remaining balance of the liability. The asset is depreciated over the shorter of the lease term and the estimated useful life of the asset. There are no material finance leases within the group.

Assets leased under operating leases are not recognized. Instead, the lease payments are expensed on a straight-line basis over the term of the lease. Significant operating leases pertain to rented business and logistic premises in the group.

INCOME TAXES

The income tax expense of the period comprises current and deferred taxes. Taxes are recognized in the profit or loss for the period, unless they relate to items recognized directly in equity or in other comprehensive income in which case the taxes are also recognized in equity or in other comprehensive income.

The current tax expense is calculated using the tax laws of the countries in which the entities operate and generate taxable income effective as of the reporting date.

Management regularly prepares tax returns, paying close attention to matters open to interpretation, and recognizes provisions based on the amounts that are expected to be payable to the tax authorities.

Deferred taxes are calculated using the liability method on the basis of IAS 12. Deferred taxes are recognized on the basis of temporary differences between the carrying amounts recognized in the consolidated financial statements and the tax accounts if these differences lead to future tax relief or tax expenses. Measurement of deferred taxes is performed taking into account the tax rates and tax laws expected to apply at the time when the differences are reversed. Deferred tax assets are only recognized on temporary differences or unused tax losses if there is reasonable assurance that they will be realized in the near future.

Deferred tax liabilities are recognized for all taxable temporary differences, except for differences:

- Arising from the initial recognition of goodwill or an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss.
- Relating to the deductible temporary differences arising from the recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the profit/loss for the period according to IFRSs nor taxable profit or loss.
- Associated with investments in subsidiaries, where Zalando can control the timing of the reversal of the temporary differences and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred tax assets are recognized for all deductible temporary differences, carryforward of unused tax credits and unused tax losses, to the extent that it is sufficiently probable that taxable profit will be available against which the deductible temporary differences and the carryforward of unused tax credits and unused tax losses can be utilized. Excluded from this are deferred tax assets arising from deductible temporary differences:

- Relating to the deductible temporary differences arising from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the profit/loss for the period according to IFRSs nor taxable profit or loss.
- Associated with investments in subsidiaries, deferred tax assets are recognized only to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit or loss will be available against which the temporary differences can be utilized.

The carrying amount of deferred tax assets is reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow the deferred tax asset to be utilized. Unrecognized deferred tax assets are reassessed at each reporting date and are recognized to the extent that it has become probable that future taxable profits will allow the deferred tax asset to be recovered.

The group offsets deferred tax assets and deferred tax liabilities if and only if it has a legally enforceable right to set off current tax assets and current tax liabilities and the deferred tax assets and deferred tax liabilities relate to income taxes levied by the same tax authority.

INVENTORIES

Merchandise accounted for as inventories is recognized at cost pursuant to IAS 2. Cost is calculated on the basis of an item-by-item measurement, factoring in the additions from the point of view of the sourcing market or on the basis of the moving average price of the goods. Supplier payments that are to be classified as a reduction of cost, reduce the carrying amount of inventories.

Merchandise as of the reporting date is measured at the lower of cost or net realizable value. The net realizable value is the expected selling price less the costs necessary to sell. Adequate write-downs to net realizable value were made to allow for all risks from slow-moving goods and/or reduced salability. When the circumstances that previously caused merchandise to be written down below cost no longer exist, the write-down is reversed.

FINANCIAL INSTRUMENTS

GENERAL INFORMATION

A financial instrument is any contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another entity. Financial assets and financial liabilities are disclosed in the consolidated statement of financial position when Zalando becomes a contractual party to a financial instrument. All regular way contracts are recognized irrespective of their classification as of the settlement date. The settlement date is the date on which an asset is delivered to or by the entity. The trade date is the date that the company commits to purchase or sell an asset. Derivative financial instruments are recognized on the trade date.

Financial assets and financial liabilities classified as financial instruments are generally not netted; they are netted only if the group intends to settle the amounts on a net basis. Financial assets are derecognized when the contractual rights to the cash flows from the financial asset expire or the financial asset is transferred together with all significant risks and rewards. Financial liabilities are derecognized when the contractual commitments have been settled, canceled, or have expired.

The fair value of a financial instrument is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. If there are listed prices on an active market (e.g., share prices), these are used as a measurement base. If there is no active market, reference is made to the market most favorable for the entity for measurement purposes.

The amortized cost of a financial asset or a financial liability is the amount:

- At which the financial asset or financial liability is measured at initial recognition
- less any repayments and
- any write-downs for impairment or uncollectibility (in the case of financial assets) and
- plus or minus the cumulative amortization using the effective interest method over the term of the financial asset or financial liability of any difference between that initial amount and the maturity amount (e.g. premium or transaction costs).

The amortized cost of current receivables and liabilities generally corresponds to the nominal value or settlement amount.

FINANCIAL ASSETS

Financial assets are assigned to the following categories, for the purposes of subsequent measurement:

- Loans and receivables,
- financial assets at fair value through profit or loss, or
- available-for-sale financial assets.

When financial assets are recognized initially, they are measured at fair value. For all categories except financial assets at fair value through profit or loss, the transaction costs incurred are included in initial recognition.

The allocation to the aforementioned categories must be observed for the subsequent measurement of financial assets. There are different measurement rules for each category.

If there are indications of impairment for financial assets that are not measured at fair value through profit or loss, corresponding impairment losses are recognized. If the reasons for impairment no longer apply for loans and receivables, the impairment losses are reversed to amortized cost. For all financial assets, the impairment losses through profit and loss are recognized in separate accounts.

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted on an active market. They are measured at amortized cost. This measurement category is used for trade receivables, other financial assets and cash and short-term deposits.

All financial assets held for trading are allocated to the category of financial assets at fair value through profit or loss. Financial instruments held for trading are those acquired for the purpose of selling or repurchasing in the near term. Derivative financial instruments that are not effective hedging instruments are also allocated to this category. Changes in fair value for financial assets are recognized through profit or loss.

The category of available-for-sale financial assets relates to those non-derivative financial assets that were not allocated to any of the aforementioned categories. Changes in the fair value of available-for-sale financial assets are recognized directly in other comprehensive income. The fluctuations in value recognized in other comprehensive income are transferred to profit for the period only at the time the assets are disposed of or in the event of their impairment. Equity instruments which do not have a listed market price in an active market and whose fair value cannot be reliably measured are measured at cost. In the case of impairment, a write-down to the present value of future cash flows is performed.

IMPAIRMENT OF FINANCIAL ASSETS

As of every reporting date, the group tests financial assets or groups of financial assets to determine whether there is any indication that they may be impaired. A financial asset or a group of financial assets is deemed to be impaired if, and only if, there is objective evidence of negative changes in the future cash flows of the financial asset or the group of financial assets as a result of one or more events that has occurred after the initial recognition of the asset. Impairments recognized in the form of allowances are recorded through profit or loss. If, in a subsequent year, the amount of the estimated impairment loss increases or decreases because of an event occurring after the impairment was recognized, the previously recognized impairment loss is increased or reduced by adjusting the allowance account.

Zalando accounts for impairments of trade receivables using portfolio-based specific allowances that are calculated with the help of sales-channel and country-specific allowance rates based on how long they are past due.

Receivables together with the allowance recognized are written off when there is no realistic prospect of future recovery and all collateral has been realized or has been transferred to the group.

FINANCIAL LIABILITIES

Financial liabilities are recognized initially at fair value, plus directly attributable transaction costs in the case of loans and borrowings. Zalando allocates financial liabilities to one of the categories upon initial recognition.

Financial liabilities fall into one of the two following categories:

- Financial liabilities at fair value through profit or loss, or
- financial liabilities measured at amortized cost.

Financial liabilities at fair value through profit or loss include financial liabilities held for trading and financial liabilities designated upon initial recognition as at fair value through profit or loss. These include in particular derivative financial instruments that are not designated as hedging instruments. Gains and losses from the subsequent measurement are recognized through profit or loss.

After initial recognition, trade payables, liabilities to banks and other financial liabilities not held for trading are measured at amortized cost using the effective interest method and thus allocated to the category of financial liabilities measured at amortized cost.

DERIVATIVE FINANCIAL INSTRUMENTS AND HEDGE ACCOUNTING

Zalando uses derivative financial instruments such as forward exchange contracts and interest rate swaps to hedge its risks associated with foreign currency and interest rate fluctuations. Such derivative financial instruments are initially recognized at fair value both on the date on which a derivative contract is entered into and subsequent reporting dates. Derivative financial instruments are reported as financial assets if their fair value is positive. They are reported as financial liabilities in the statement of financial position if their fair value is negative.

Whether or not profits and losses from changes in the fair value of derivative financial instruments are recognized depends on whether the requirements of IAS 39 are met with regard to hedge accounting. Zalando uses derivative financial instruments exclusively to hedge against risks.

Gains and losses from changes in the fair value of derivative financial instruments other than hedging instruments are recognized immediately through profit or loss.

Hedge accounting involves classifying derivative financial instruments either as an instrument to hedge the fair value of a hedged item (fair value hedge), an instrument to hedge forecast transactions (cash flow hedge) or an instrument to hedge a net investment in a foreign operation.

As part of its risk management, Zalando has formally set out and documented objectives and strategies for mitigating risk.

A portion of the forward exchange contracts are used to hedge goods purchased in US dollars and pounds sterling and the resulting trade payables. Another portion of the forward exchange contracts are used to hedge goods sold in foreign currency and the resulting trade receivables. These forward exchange contracts are concluded in Swiss francs, Norwegian kroner, Polish zloty and Swedish kronor.

The interest rate hedges were entered into to mitigate the interest risk from floating-rate bank loans.

FAIR VALUE HEDGES

A fair value hedge is a hedge of the exposure to changes in fair value of recognized assets or liabilities. Changes in the fair value of derivatives and changes in the hedged item's market value on which the hedged risk is based are recognized in the profit/loss for the period.

Zalando uses forward exchange contracts to mitigate the risk of fluctuations in the fair value of trade payables denominated in US dollars and pounds sterling as well as trade receivables denominated in Swiss francs, Norwegian kroner, Polish zloty and Swedish kronor arising from market value changes.

CASH FLOW HEDGES

A cash flow hedge hedges the fluctuations of future cash flows attributable to a recognized asset or liability (in the case of interest risks), to planned or highly probable forecast transactions and to fixed contractual obligations not shown on the face of the statement of financial position.

If a cash flow hedge is effective, the changes in the fair value of the hedge are recorded directly in equity under other comprehensive income. Changes in the fair value of the ineffective portion of the hedging instrument are posted directly as profit or loss for the period. The gains and losses resulting from hedges initially remain in equity and are later recognized through profit or loss for the period in which the hedged transaction influences the net income or loss for the period.

Zalando uses forward exchange contracts as hedging instruments to hedge foreign currency risks resulting from contractual merchandise sourcing transactions that have yet to be fulfilled. In addition, Zalando uses forward exchange contracts to hedge planned revenue in foreign currency against exchange rate fluctuations. These are recognized as cash flow hedges if the conditions of hedge accounting are fulfilled. These amounts recognized as other comprehensive income are reclassified through profit or loss once the hedged items are realized. In the case of contractual merchandise sourcing transactions, other comprehensive income is derecognized via the cost of materials. The share of other comprehensive income that is attributable to hedging revenue is posted via revenue through profit or loss.

The interest rate swaps that Zalando has concluded to hedge interest rate risks from floating-rate bank loans drawn are also recorded as cash flow hedges. Amounts recognized in equity are depleted through interest expense.

FAIR VALUE MEASUREMENT

The group applies measurement techniques that are appropriate under the respective circumstances and for which sufficient data is available for fair value measurement. In the process, observable market inputs are to be preferred to non-observable inputs.

Assets and liabilities measures or presented at fair value in the financial statements are classified on the basis of the following fair value hierarchy. The classification uses the input parameters of the lowest category that is material to the fair value measurement.

- Level 1: Quoted prices (unadjusted) in active markets for identical assets or liabilities.
- Level 2: Other techniques for which all inputs have a significant effect on measurement are observable, either directly or indirectly.
- Level 3: Other techniques for which at least one input having a significant effect on fair value measurement is not based on observable market data.

For assets or liabilities that are recorded in the financial statements on a recurring basis, the group determines whether reclassification has taken place between the levels of the hierarchy by examining the classification at the end of each reporting period.

For forward exchange contracts, the fair value is determined on the basis of the official exchange rates as of the reporting date issued by the European Central Bank taking account of forward premiums and discounts for the respective remainder of the contract compared with the contractually agreed exchange rate. Interest rate hedges are measured on the basis of discounted future expected cash flows using market discount rates for the remaining term of the contracts.

PROVISIONS

GENERAL INFORMATION

Provisions are recognized in accordance with of IAS 37 when the group has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation.

A best estimate is made of the amount of the provisions taking into consideration all the discernible risks arising from the obligation. This refers to the amount that is most likely needed to settle the liability. Provisions with a residual term of more than one year are discounted on the reporting date.

RESTORATION OBLIGATIONS

The group recognizes provisions for restoration expenses for leasehold improvements in the leased warehouses and office buildings. The provision is recognized at an amount equivalent to the present value of the estimated future restoration obligations. The restoration obligations are recognized as part of the cost of the leasehold improvements for the corresponding amount. The estimated cash flows are discounted at a rate with appropriate maturities that reflects the risks specific to the restoration expense. The unwinding of the discount is expensed as incurred and recognized as an interest expense in the statement of comprehensive income.

SHARE-BASED PAYMENTS

GENERAL INFORMATION

The share-based payment programs in the group are accounted for as equity-settled or cash-settled share-based payments.

Zalando recognizes the equity-settled share-based payments granted to management as expenses at the fair value of the granted options. This amount is deducted from the capital reserve. Expense recognition and the addition to the capital reserves are performed over the contractually agreed vesting period. The vesting period is the period in which the performance and service conditions must be fulfilled. The fair value of the options issued is calculated at the grant date and not adjusted subsequently.

For cash-settled share-based payments, the fair value of the expected performance-based remuneration is recognized pro rata over the vesting period as an expense. The fair value of the total anticipated consideration is to be recalculated at the end of each reporting period.

EQUITY-SETTLED TRANSACTIONS

The cost of equity-settled transactions is recognized together with a corresponding increase in the capital reserve in equity over the vesting period. The cumulative expense recognized for equity-settled transactions at each reporting date until the vesting date reflects the extent to which the vesting period has expired and the group's best estimate of the number of equity instruments that will ultimately vest. The income or expense recognized in the profit/loss for the period corresponds to the change in cumulative expenses recognized in the reporting period.

No expense is recognized for awards that do not ultimately vest due to a service or performance condition not being fulfilled. Equity-settled payment models with market-related performance conditions and other conditions only affect the fair value of the expected payment on the grant date. These are treated as vested irrespective of whether or not the market or non-vesting condition is satisfied, provided that all other service conditions are satisfied.

Where the terms of an equity-settled transaction are modified, the minimum expense recognized is the expense that would have been incurred if the original terms of the arrangement had been fulfilled. Zalando also recognizes increases in the fair value of the equity instruments granted due to modifications.

When an equity-settled award is canceled, it is treated as if it vested on the date of cancellation. Any expense not yet recognized for the award is recognized immediately. However, if a new award is substituted for the canceled award, and designated as a replacement award on the grant date, the new awards are treated as if they were a modification of the original award.

CASH-SETTLED TRANSACTIONS

The total expense resulting from cash-settled share-based payments is initially measured at fair value as of the grant date. This amount is expensed over the period until the vesting date with recognition of a corresponding liability. The liability is remeasured to fair value at each reporting date up to and including the settlement date. Changes in fair value are recognized through profit or loss (see note 03.5.7 (20.) for further information).

OTHER LONG-TERM EMPLOYEE BENEFITS

Other long-term employee benefits pertain to employee benefits (other than post-employment benefits and termination benefits) which do not in their entirety fall due within 12 months after the end of the reporting period.

The value of the liability recognized is calculated according to the projected unit credit method as the present value of the expected payments for vested benefits as of the reporting date. The present value of the liability is recalculated as of every reporting date. Changes are recognized through profit or loss.

REVENUE RECOGNITION

Revenue is recognized in accordance with the provisions of IAS 18 when the goods or services are delivered, provided that it is likely that economic benefits will flow to the group and the amount can be reliably measured. Revenue is measured at the fair value of the consideration received or receivable, taking into account contractually defined terms of payment and excluding taxes or duty. Revenue is recorded net of sales deductions.

The following specific recognition criteria must also be met before revenue is recognized:

- When selling merchandise to customers, Zalando typically renders its service when the significant risks and rewards of ownership of the goods and the control of the asset have been transferred to the customer. This is generally the case when the goods are delivered.
- If rights of return are agreed when products are sold, revenue is not recognized unless sufficient values on the probability of the exercise of these rights based on past experience are available. The expected volume of returns is estimated and recognized as reducing revenue.

EXPECTED RETURNS

Zalando presents the expected returns of goods on a gross basis in the income statement and reduces revenue by the full amount of sales that it estimates will be returned. The dispatch of goods that is recorded in full upon dispatch of the goods is then corrected by the estimated amount of returns.

Zalando also presents expected returns on a gross basis in the statement of financial position. In this context, a right to recover possession of goods from expected returns is recognized in other non-financial assets. The amount of the asset corresponds to the cost of the goods delivered for which a return is expected, taking into account the costs incurred for processing the return and the losses resulting from disposing of these goods.

Trade receivables that have not yet been paid and that have underlying transactions that are not expected to be closed due to the goods being returned are derecognized.

For customer receivables already paid and for which returns are expected in the future, Zalando recognizes a refund obligation vis-à-vis the customer within other current financial liabilities.

GOVERNMENT GRANTS

Government grants are recognized where there is reasonable assurance that the grant will be received and all attached conditions will be complied with. Investment subsidies are deducted from the cost of the subsidized assets in the statement of financial position.

When the government grant relates to an expense item, it is recognized as income on a systematic basis over the periods that the costs, which it is intended to compensate, are incurred. Grants received to compensate costs that have already been incurred are recognized through profit or loss and offset against the corresponding expense in the period when the entitlement arises.

03.5.6 USE OF ESTIMATES AND ASSUMPTIONS

The preparation of financial statements in accordance with IFRSs requires management to make assumptions and estimates that have effects on the amounts carried and the related disclosures. Although these estimates, to the best of management's knowledge, are based on the current events and measures, there may be deviations between estimated and actual results. Significant estimates and assumptions have been used for the following matters in particular:

- Identification and determination of write-downs of merchandise and receivables; see comments under notes 03.5.7 (15.) and 03.5.7 (16.),
- setting the ratio of returns, see comments under notes 03.5.7 (24.),
- the determination of the fair value of obligations from financial liabilities and share-based payments; see comments under 03.5.8. Other notes – Risks from financial instruments and financial risk management as well as note 03.5.7. (20.),
- the determination of the recoverability of deferred tax assets on unused tax losses; see comments under notes 03.5.7 (8.) and 03.5.7 (27.).

All estimates and assumptions are based on circumstances and judgments at the reporting date and the expected future development of the group's business taking into consideration the anticipated development of its business environment. If these general conditions develop differently, the assumptions and the carrying amounts of the assets and liabilities recognized are adjusted accordingly.



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FURTHER INFORMATION
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03.5.7 NOTES TO THE CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME AND STATEMENT OF FINANCIAL POSITION

(1.) REVENUE

44 REVENUE

IN EUR M	JAN 1-DEC 31, 2015	JAN 1-DEC 31, 2014
Revenue from the sale of merchandise	2,923.0	2,190.7
Revenue from other services	35.1	23.3
Total	2,958.2	2,214.0

Zalando was able to significantly increase its revenue in all market segments. Revenue rose by 33.6%. The increase in revenue can be attributed primarily to a higher number of orders.

(2.) COST OF SALES

45 COST OF SALES

IN EUR M	JAN 1-DEC 31, 2015	JAN 1-DEC 31, 2014
Non-personnel costs	1,571.9	1,212.7
Personnel costs	52.2	42.6
Total	1,624.0	1,255.3

Cost of sales mainly consists of cost of materials, personnel costs, write-downs on inventories, third-party services and infrastructure costs.

Cost of materials in the group totals EUR 1,467.4m (prior year: EUR 1,126.5m).

Zalando generated a gross profit of EUR 1,334.1m in the 2015 fiscal year (prior year: EUR 958.7m).

(3.) SELLING AND DISTRIBUTION COSTS

46 SELLING AND DISTRIBUTION COSTS

IN EUR M	JAN 1-DEC 31, 2015	JAN 1-DEC 31, 2014
Non-personnel costs	936.8	658.7
Personnel costs	182.1	135.1
Total	1,118.9	793.8

In 2015, selling and distribution costs rose by EUR 325.1m to EUR 1,118.9m and pertain to fulfillment costs of EUR 767.0m (prior year: EUR 498.2m) and marketing costs of EUR 351.9m (prior year: EUR 295.6m). The increase in fulfillment costs was mainly driven by external fraud. Zalando focusses on an improving, first class customer experience. On the one hand, fulfillment costs reflect the investments in more rapid delivery as well as the mobile and platform technology. On the other hand, they also include impairment losses recorded on receivables. This is a reflection of more customer-friendly payment methods, which led to a higher share of orders placed on account in the first six months of 2015 and to a higher volume of external fraud.

(4.) ADMINISTRATIVE EXPENSES

47 ADMINISTRATIVE EXPENSES

IN EUR M	JAN 1-DEC 31, 2015	JAN 1-DEC 31, 2014
Non-personnel costs	46.6	38.4
Personnel costs	82.4	70.8
Total	129.0	109.2

The non-personnel costs primarily contain office expenses, depreciation as well as legal and advisory expenses.

(5.) OTHER OPERATING INCOME

Other operating income of EUR 10.2m (prior year: EUR 12.2m) largely comprises income from advertising business and advertising subsidies as well as income from the subletting of office space, credit notes from our partner program and other non-cash payments.

(6.) OTHER OPERATING EXPENSES

Other operating expenses of EUR 7.0m (prior year: EUR 5.8m) mainly stem from expenses relating to other periods, expenses from the partner program as well as Supervisory Board remuneration.

(7.) FINANCIAL RESULT**48 FINANCIAL RESULT**

IN EUR M	JAN 1–DEC 31, 2015	JAN 1–DEC 31, 2014
Interest and similar income	1.2	0.2
thereof from hedging derivatives	0.8	0.0
thereof from trade and other receivables	0.2	0.0
thereof other interest and similar income	0.2	0.0
thereof from banks	0.0	0.1
Interest and similar expenses	–6.1	–4.6
thereof from financial liabilities at amortized cost	–4.9	–3.1
thereof from hedging derivatives	–0.7	–0.3
thereof other interest and similar expenses	–0.5	–1.0
thereof from accumulation of interest on non-current provisions	–0.0	–0.2
Result of investments accounted for using the equity method	–1.6	0.0
Other financial result	3.5	0.0
thereof from hedging transactions	2.4	0.6
thereof from currency effects	1.2	–0.6
Financial result	–3.0	–4.5

The increase in interest and similar income is mainly attributable to the higher hedging volume in the current reporting year.

As a result of the higher reverse factoring volume, interest expenses from financial liabilities at amortized cost rose further year-on-year. Interest from derivatives rose significantly in the reporting year due to the higher hedging volume.

(8.) INCOME TAXES

Income taxes include the deferred taxes and current income taxes paid or payable in the respective countries. They comprise trade tax, corporate income tax, solidarity surcharge and the corresponding foreign tax charges. As in the prior year, the statutory corporate income tax rate, including solidarity surcharge, for the assessment period 2015 in Germany was 15.8%. The applicable trade tax rate rose to 14.8% as a result of changes in corporate allocations (prior year: 13.3%). This yields an effective tax rate for the group of 30.5% (prior year: 29.1%).

Current and deferred taxes are presented in the following table.

49 INCOME TAXES

IN EUR M	JAN 1–DEC 31, 2015	JAN 1–DEC 31, 2014
Deferred taxes	47.1	–2.4
Current taxes in Germany	–12.2	–8.0
Current taxes in other countries	0.0	–0.1
Total	34.9	–10.5

Zalando has previously made losses, which may be carried forward to reduce the tax burden for the past fiscal year and for future years. As of the reporting date, the Zalando group as a result has unused corporate income tax losses of EUR 193.6m (prior year: EUR 235.0m) and unused trade tax losses of EUR 179.5m (prior year: EUR 232.0m). These primarily relate to ZALANDO SE. The amount of these unused tax losses depends on the final assessment by the applicable tax office.

In view of the above, Zalando again considered capitalizing deferred tax assets relating to unused tax losses. Following the second profitable fiscal year and the positive future earnings expectations, Zalando decided to capitalize deferred tax assets on unused tax losses of EUR 52.3m (prior year: EUR 1.1m) based on tax planning in accordance with IAS 12. Zalando expects to utilize the unused tax losses in the medium term.

The utilization of unused tax losses for which no deferred tax assets have been recognized in the past resulted in a positive effect on the tax result of EUR 16.9m in the reporting year (prior year: EUR 11.9m).

In the prior year, current tax expenses of EUR 1.8m were recognized directly in equity.

The reasons for the difference between expected and disclosed tax expense in the group are as follows:

50 TAX RATE RECONCILIATION

IN EUR M	JAN 1–DEC 31, 2015	JAN 1–DEC 31, 2014
Earnings before taxes	86.6	57.6
Income tax rate for the group	30.5%	29.1%
Expected tax expense	–26.4	–16.8
Share of taxes for:		
Non-deductible expenses	–5.6	–6.4
Recognition of previously unrecognized unused tax losses	52.3	1.1
Previously unrecognized tax loss carryforwards that were used in the reporting year	16.9	11.9
Entities included using the equity method	–0.5	0.0
Tax expense relating to other periods	–0.3	–0.1
Tax rate differences	–0.5	0.0
thereof share of subsidiaries with higher tax rates	0.0	0.0
thereof share of subsidiaries with lower tax rates	–0.5	0.0
Changes in tax rates	–0.2	0.0
Other	–0.7	–0.2
Income tax expense according to the consolidated statement of comprehensive income	34.9	–10.5
<i>Effective tax rate</i>	<i>–40.3%</i>	<i>18.2%</i>

(9.) EARNINGS PER SHARE

The basic earnings per share are determined by dividing the net income for the period attributable to the shares by the basic weighted average number of shares.

The basic earnings per share developed in line with the improvement in the net income for the period from EUR 0.21 to EUR 0.49.

In 2014 the average number of shares used in the denominator was corrected retroactively in accordance with IAS 33.

51 BASIC EARNINGS PER SHARE (EPS)

IN EUR M	JAN 1–DEC 31, 2015	JAN 1–DEC 31, 2014
Net income for the period (in EUR m)	121.5	47.1
Basic weighted average number of shares (in millions)	246.2	226.5
Total (in EUR)	0.49	0.21

The diluted earnings per share are determined by dividing the net income for the period attributable to the shares by the diluted weighted average number of shares.

52 DILUTED EARNINGS PER SHARE (EPS)

IN EUR M	JAN 1–DEC 31, 2015	JAN 1–DEC 31, 2014
Net income for the period (in EUR m)	121.5	47.1
Weighted average number of dilutive shares (in millions)	254.2	230.4
Total (in EUR)	0.48	0.20

Employee options and contracts, which can either be share-settled or cash-settled, were also taken into account in the calculation of the diluted earnings per share in fiscal year 2015. Those equity-settled share-based payments which include performance conditions that had not yet been met as of the reporting date are not, on the other hand, reflected in the calculation of the diluted earnings per share. As a result, the options granted within the scope of SOP 2014 in fiscal year 2015 were not taken into account in the calculation of diluted earnings.

(10.) PERSONNEL EXPENSES

53 PERSONNEL EXPENSES

IN EUR M	JAN 1–DEC 31, 2015	JAN 1–DEC 31, 2014
Wages and salaries	266.5	209.2
Social security, pensions and other benefit costs	50.1	39.3
thereof pension costs	0.2	0.1
Total	316.6	248.5

The average number of salaried employees in the group was 9,205 in fiscal year 2015 (prior year: 7,496). Contributions to the statutory pension insurance scheme rose by EUR 5.0m to EUR 22.9m (prior year: EUR 17.9m).

(11.) INTANGIBLE ASSETS

Intangible assets developed as follows:

54 STATEMENT OF MOVEMENTS OF INTANGIBLE ASSETS 2015

IN EUR M	CAPITALIZED DEVELOPMENT COSTS	INDUSTRIAL RIGHTS, SIMILAR RIGHTS AND ASSETS AS WELL AS LICENSES	PREPAYMENTS	TOTAL
Historical costs				
As of Jan 1, 2015	34.4	18.3	2.6	55.3
Additions	13.9	15.2	9.2	38.3
Reclassifications	1.7	0.3	-2.0	0.0
As of Dec 31, 2015	50.0	33.8	9.8	93.6
Amortization				
As of Jan 1, 2015	14.7	11.6	0.0	26.3
Additions	12.2	6.3	0.0	18.5
As of Dec 31, 2015	26.9	17.9	0.0	44.8
Carrying amounts				
As of Dec 31, 2014	19.7	6.7	2.6	29.0
As of Dec 31, 2015	23.1	15.9	9.8	48.8

55 STATEMENT OF MOVEMENTS OF INTANGIBLE ASSETS 2014

IN EUR M	CAPITALIZED DEVELOPMENT COSTS	INDUSTRIAL RIGHTS, SIMILAR RIGHTS AND ASSETS AS WELL AS LICENSES	PREPAYMENTS	TOTAL
Historical costs				
As of Jan 1, 2014	17.5	14.5	1.4	33.4
Additions	16.9	2.6	2.4	21.9
Reclassifications	0.0	1.2	-1.2	0.0
As of Dec 31, 2014	34.4	18.3	2.6	55.3
Amortization				
As of Jan 1, 2014	5.6	6.6	0.0	12.2
Additions	9.1	5.0	0.0	14.1
As of Dec 31, 2014	14.7	11.6	0.0	26.3
Carrying amounts				
As of Dec 31, 2013	11.9	8.0	1.4	21.3
As of Dec 31, 2014	19.7	6.7	2.6	29.0

Additions mainly relate to capitalized development costs of EUR 23.1m (prior year: EUR 18.8m), of which EUR 9.2m is contained in prepayments (prior year: EUR 1.9m). These exclusively concern production costs for internally developed software.

The immaterial research costs were recognized directly in profit and loss.

There were no intangible assets with indefinite useful lives, apart from the brand names and domain rights recognized of EUR 0.7m (prior year: EUR 0.7m). These assets were assigned an unlimited useful life since there are no legal, regulatory, contractual, competition-related, economic or other factors that would limit the useful life.

Amortization of EUR 18.5m was recorded in the reporting period (prior year: EUR 14.1m). Of this amount, EUR 0.7m (prior year: EUR 2.1m) is recognized in cost of sales, EUR 13.4m (prior year: EUR 6.7m) in selling and distribution costs and EUR 4.4m (prior year: EUR 5.3m) in administrative expenses.

(12.) PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment developed as follows:

56 STATEMENT OF MOVEMENTS OF PROPERTY, PLANT AND EQUIPMENT 2015

IN EUR M	PLANT AND MACHINERY	OTHER EQUIPMENT, FURNITURE AND FIXTURES	BUILDINGS ON THIRD-PARTY LAND	PREPAYMENTS	TOTAL
Historical costs					
As of Jan 1, 2015	75.3	57.5	0.0	1.1	133.9
Additions	4.2	16.4	0.4	12.0	33.0
Reclassifications	21.0	-20.9	0.3	-0.4	0.0
As of Dec 31, 2015	100.5	53.0	0.7	12.7	166.9
Depreciation					
As of Jan 1, 2015	7.4	15.5	0.0	0.0	22.9
Additions	7.1	8.7	0.0	0.0	15.8
Reclassifications	1.2	-1.4	0.2	0.0	0.0
As of Dec 31, 2015	15.7	22.8	0.2	0.0	38.7
Carrying amounts					
As of Dec 31, 2014	67.9	42.0	0.0	1.1	111.0
As of Dec 31, 2015	84.8	30.2	0.5	12.7	128.2

57 STATEMENT OF MOVEMENTS OF PROPERTY, PLANT AND EQUIPMENT 2014

IN EUR M	PLANT AND MACHINERY	OTHER EQUIPMENT, FURNITURE AND FIXTURES	BUILDINGS ON THIRD-PARTY LAND	PREPAYMENTS	TOTAL
Historical costs					
As of Jan 1, 2014	22.8	47.3	0.0	46.5	116.6
Additions	7.2	8.9	0.0	1.4	17.5
Disposals	-0.2	0.0	0.0	0.0	-0.2
Reclassifications	45.5	1.3	0.0	-46.8	0.0
As of Dec 31, 2014	75.3	57.5	0.0	1.1	133.9
Depreciation					
As of Jan 1, 2014	1.5	9.4	0.0	0.0	10.9
Additions	5.9	6.1	0.0	0.0	12.0
As of Dec 31, 2014	7.4	15.5	0.0	0.0	22.9
Carrying amounts					
As of Dec 31, 2013	21.3	37.9	0.0	46.5	105.7
As of Dec 31, 2014	67.9	42.0	0.0	1.1	111.0

The additions mainly pertain to furniture and fixtures as well as investments in expanding the fulfillment centers in Erfurt and Mönchengladbach.

Depreciation of property, plant and equipment came to EUR 15.8m (prior year: EUR 12.0m). Of this total, an amount of EUR 2.2m (prior year: EUR 1.7m) is recognized in cost of sales, EUR 10.9m (prior year: EUR 8.6m) in selling and distribution costs and EUR 2.7m (prior year: EUR 1.7m) in administrative expenses.

(13.) NON-CURRENT FINANCIAL ASSETS AND NON-FINANCIAL ASSETS

Non-current financial assets mainly comprise restricted cash of EUR 13.0m (prior year: EUR 48.3m).

Non-current non-financial assets primarily relate to the periodical deferral of expenses for payments already made.

(14.) INVESTMENTS ACCOUNTED FOR USING THE EQUITY METHOD

On May 20, 2015, Zalando acquired a 20.0% stake in Anatwine Ltd, Cheltenham, UK, ("Anatwine") allowing Zalando to exert significant influence. Anatwine provides customized software integration services for fashion brands to enable the integration of their merchandise into online market places.

Driven by operating losses, the carrying amount of investments accounted for using the equity method decreased by EUR 1.6m.

(15.) INVENTORIES AND PREPAYMENTS

Inventories of merchandise, mainly consisting of the product groups shoes and textiles, are recognized at an amount of EUR 493.5m (prior year: EUR 348.4m).

Allowances of EUR 71.4m were recognized on inventories and the right to repossess goods associated with expected returns (prior year: EUR 57.4m). Expenses for allowances recorded on inventories came to EUR 79.8m in the reporting year (prior year: EUR 63.4m).

Prepayments pertain to prepayments for merchandise.

(16.) TRADE AND OTHER RECEIVABLES

Trade receivables are mainly due from customers of ZALANDO SE. The entire portfolio of receivables was reduced by bad debt allowances, as in the prior year.

On aggregate, the bad debt allowances developed as follows:

58 DEVELOPMENT OF BAD DEBT ALLOWANCES

IN EUR M	DEC 31, 2015	DEC 31, 2014
Accumulated bad debt allowances as of Jan 1	63.3	52.1
Additions to portfolio-based specific bad debt allowance	80.9	23.2
Utilizations	-11.4	-10.7
Reversals	0.0	-1.3
Exchange rate effects and other changes	0.1	0.0
Accumulated bad debt allowances as of Dec 31	132.9	63.3

Additions to bad debt allowances totaled EUR 80.9m in the reporting year (prior year: EUR 23.2m). Of the bad debt allowances recognized as of December 31 of the prior year, EUR 11.4m was utilized (prior year: EUR 10.7m) and EUR 0.0m reversed (prior year: EUR 1.3m). Bad debts for uncollectible receivables amounted to EUR 24.1m in the fiscal year (prior year: EUR 0.6m).

The increase in the bad debt allowances compared to the prior year reflects the more customer-friendly payment methods, which led to a higher share of orders offered the invoice option, especially in the first six months of the reporting period and to a higher volume of fraud.

Additions to bad debt allowances are reported under selling and distribution costs. Receivables do not bear interest and are therefore not subject to interest rate risk.

(17.) OTHER FINANCIAL ASSETS AND OTHER NON-FINANCIAL ASSETS

Other financial assets of EUR 175.9m (prior year: EUR 13.6m) mainly relate to financial investments with an original term to maturity of between three and twelve months of EUR 155.0m (prior year: EUR 0.0m), creditors with debit balances of EUR 5.9m (prior year: EUR 3.5m) and receivables from personnel cost subsidies of EUR 4.4m (prior year: EUR 4.3m).

Other non-financial assets of EUR 66.7m (prior year: EUR 37.7m) primarily comprise the right to repossess goods associated with expected returns of EUR 34.5m (prior year: EUR 24.6m), VAT receivables of EUR 21.0m (prior year: EUR 5.5m) and deferred items at EUR 4.9m (prior year: EUR 4.8m).

(18.) CASH AND CASH EQUIVALENTS

ZALANDO SE's cash and cash equivalents comprise the categories as presented in the following table. The short-term deposits presented have original terms to maturity of up to three months.

59 CASH AND CASH EQUIVALENTS

IN EUR M	DEC 31, 2015	DEC 31, 2014
Money market funds	439.7	520.0
Cash in bank	391.5	339.9
Short-term bank deposits	145.0	190.0
Cash on hand	0.0	0.1
Cash in transit	0.0	0.9
Total	976.2	1,051.0

(19.) EQUITY

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

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

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

60 AUTHORIZED AND CONDITIONAL CAPITAL

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

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

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

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

The capital reserve amounts to EUR 1,140.9m (prior year: EUR 1,120.4m). In the reporting year, contributions were made under the share-based payment plans in accordance with IFRS 2 of EUR 17.9m (prior year: EUR 19.8m). In connection with the recognition of deferred tax assets from unused tax losses, the income tax benefit from the transaction costs of the initial public offering in the prior year rose by EUR 2.5m. The capital reserve was increased by this amount.

The development of equity in the prior year was particularly effected by the initial public offering. As a result, the issued capital was increased by EUR 24.5m and the capital reserve by EUR 500.8m. Furthermore, by resolution of the annual general meeting, capital reserves of EUR 220.1m were converted into issued capital. The transaction costs in connection with raising equity capital for the initial public offering reduced the capital reserve of the prior year by EUR 13.4m, taking into account the income tax benefit.

Other reserves include effects from cash flow hedging of EUR 1.9m (prior year: EUR 1.4m) and deferred taxes on the resulting measurement differences of EUR -0.6m (prior year: EUR -0.4m). Due to cash flow hedging in the reporting year, income of EUR 6.7m (prior year: EUR 0.0m) was recycled from other reserves to revenue and income of EUR 1.4m (prior year: income of EUR 0.5m) to cost of sales. Moreover, expenses of EUR 0.2m (prior year: expenses of EUR 0.1m) from interest rate hedging were recycled to the financial result in the reporting year.

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

The accumulated loss results from the loss carryforwards of past reporting periods and the profit/loss of the current reporting period.

The development of equity is shown in the statement of changes in equity.

(20.) SHARE-BASED PAYMENTS

The share-based payment awards granted by Zalando are primarily designed as equity-settled plans and to a limited extent as cash-settled plans.

EQUITY-SETTLED PLANS**Overview**

Various share-based equity-settled payment awards were in place as of the reporting date. For reporting purposes, plans with similarities are grouped together. Zalando makes a distinction between four kinds of payment award. First, the Call Option Programs ("COPs"); second, the Stock Option Program 2011 ("SOP 2011"); third, the Stock Option Program 2013 ("SOP 2013"); and fourth, the Stock Option Program 2014 ("SOP 2014").

Call Option Programs (COPs)

Zalando has granted options entitling the beneficiaries to acquire shares in the company after a certain period of service to one member of the Management Board, the members of top management and other selected managers of the group. The exercise price of all options grouped under the COPs is EUR 1.00 before and after the capital measures described above. Each option entitles the beneficiary to acquire one share. The issue of benefits under the COPs is complete.

The options granted to the beneficiaries vest in sub-tranches. They vest if the beneficiary is employed at Zalando for the entire vesting period of the respective sub-tranche. The options are forfeited if the beneficiary leaves the group before the end of the vesting period. The beneficiaries have no claim to cash payment.

The contracts under COPs concluded vary as regards the total number of options granted, the number of sub-tranches that comprise a payment award and the length of the vesting period. The payment awards granted by Zalando were entered into at various dates. The options granted by the company can be exercised as of the vesting date.

The options granted were vested and were exercised as of the reporting date.

61 DEVELOPMENT OPTIONS (COPS)

IN EUR M	NUMBER	WEIGHTED AVERAGE EXERCISE PRICE (EUR)
Outstanding options as of Jan 1, 2014	2,264,570	1.00
Options granted during the reporting period	0	–
Options forfeited during the reporting period	13,090	1.00
Options exercised during the reporting period	20,570	1.00
Options expired during the reporting period	0	–
Options exchanged for new commitments in SOP 2014 during the reporting period	168,300	1.00
Outstanding options as of Jan 1, 2014	2,062,610	1.00
Options vested as of Dec 31, 2014	2,040,170	1.00
Outstanding options as of Jan 1, 2015	2,062,610	1.00
Options granted during the reporting period	0	–
Options forfeited during the reporting period	94,435	1.00
Options exercised during the reporting period	1,968,175	1.00
Options expired during the reporting period	0	–
Outstanding options as of Dec 31, 2015	0.00	0.00
Options vested as of Dec 31, 2015	0.00	0.00

The beneficiaries can exercise vested options for an unlimited period. The weighted average share value on the date of exercise of an option exercised in the reporting period 2015 amounted to EUR 25.16 (prior year: EUR 15.63).

Various employees returned their not yet vested options from COPs in the reporting period 2014 in exchange for options under SOP 2014. Zalando has presented this exchange as a modification of the existing commitment. The additionally granted fair value, which was calculated at the time of exchange, of EUR 10.9 m is therefore recognized as an expense over the term of the sub-tranches of SOP 2014. The additional fair value largely pertains to the fair value of new commitments calculated at the time they were granted.

SOP 2011

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

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

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

62 DEVELOPMENT OF OPTIONS (SOP 2011)

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

The options granted by the company can be exercised as of the vesting date. The beneficiaries can exercise vested options for an unlimited period.

The weighted average share value on the date of exercise of an option exercised in the reporting period 2015 amounted to EUR 26.34.

SOP 2013

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

The options granted to the members of the Management Board vest in 60 sub-tranches over a period of five years. The condition of a tranche relating to the period of service is met if the beneficiary is employed at Zalando over the vesting period of the respective sub-tranche. The performance condition stipulates that Zalando must achieve a certain level of contractually agreed revenue growth over a period of four years, starting on the grant date. If the contractual revenue target is not achieved, the options are forfeited without replacement. The waiting period commences on the date on which the option is granted. It also lasts for a period of four years. The beneficiaries can exercise vested options after the waiting period within a certain

time frame over a period of five years. Within the five-year exercise period, options can be exercised within three weeks of the publication of each of the quarterly, half year and annual financial statements. The beneficiaries have no claim to cash payment.

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

63 DEVELOPMENT OF OPTIONS (SOP 2013)

IN EUR M	NUMBER	WEIGHTED AVERAGE EXERCISE PRICE (EUR)
Outstanding options as of Jan 1, 2014	9,817,500	15.63
Options granted during the reporting period	0	—
Options forfeited during the reporting period	0	—
Options exercised during the reporting period	0	—
Options expired during the reporting period	0	—
Outstanding options as of Dec 31, 2014	9,817,500	15.63
Options vested as of Dec 31, 2014	1,952,280	15.63
Outstanding options as of Jan 1, 2015	9,817,500	15.63
Options granted during the reporting period	0	—
Options forfeited during the reporting period	0	—
Options exercised during the reporting period	0	—
Options expired during the reporting period	0	—
Outstanding options as of Dec 31, 2015	9,817,500	15.63
Options vested as of Dec 31, 2015	3,904,560	15.63

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

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

SOP 2014

The SOP 2014 authorizes leading members of the management working under the Management Board to subscribe to a total of 6,468,554 shares in ZALANDO SE. The options vest provided that the beneficiaries have worked for the company for the period specified within a tranche, the performance conditions contained in the SOP 2014 have been fulfilled, and the waiting period has elapsed. The exercise price is EUR 17.72, EUR 22.79, EUR 25.03, EUR 29.92 and EUR 30.48 per option based on the respective grant date of the options. Each option entitles the beneficiary to acquire one share. A total of 6,732,000 options can be issued within the scope of SOP 2014.

The options granted to the beneficiaries vest in 16 sub-tranches over a period of four years. The condition of a tranche relating to the period of service is met if the beneficiary is employed at Zalando over the vesting period of the respective sub-tranche. The performance condition stipulates that Zalando must achieve a certain level of contractually agreed revenue growth over a period of four years, starting on the grant date. If the contractual revenue target is not achieved, the options are forfeited without replacement. The waiting period commences on the date on which the option is granted. It continues for a period of four years. The beneficiaries can exercise vested options after the waiting period within a certain time frame over a period of five years. Within the five-year exercise period, options can be exercised within three weeks of the publication of each of the quarterly, half year and annual financial statements. The beneficiaries have no claim to cash payment.

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

64 DEVELOPMENT OF OPTIONS (SOP 2014)

IN EUR M	NUMBER	WEIGHTED AVERAGE EXERCISE PRICE (EUR)
Outstanding options as of Jan 1, 2014	0	0
Options granted during the reporting period	5,310,800	17.72
Options forfeited during the reporting period	–	–
Options exercised during the reporting period	–	–
Options expired during the reporting period	–	–
Outstanding options as of Dec 31, 2014	5,310,800	17.72
Options vested as of Dec 31, 2014	331,905	17.72
Outstanding options as of Jan 1, 2015	5,310,800	17.72
Options granted during the reporting period	1,279,100	24.87
Options forfeited during the reporting period	121,346	17.72
Options exercised during the reporting period	0	–
Options expired during the reporting period	0	–
Outstanding options as of Dec 31, 2015	6,468,554	19.13
Options vested as of Dec 31, 2015	1,828,789	18.32

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

The weighted average fair value of a new option granted within the scope of the SOP 2014 was EUR 8.86 in the reporting period (prior year: EUR 3.35). The fair value of the options comprises the intrinsic value and the fair value multiplied by the probability that the performance target will be reached. The fair value of the options was calculated using the Black-Scholes option price model. The input parameters included in the calculation of the newly granted options are summarized in the following table:

65 PARAMETERS OF SOP 2014

IN EUR M	JAN 1–DEC 31, 2015	JAN 1–DEC 31, 2014
Weighted average share price (EUR)	27.80	16.28
Weighted average exercise price (EUR)	24.87	17.72
Expected volatility (%)	35.3	32.9
Expected life of option (years)	4.1	4.1
Expected dividends (%)	0.0	0.0
Risk-free interest rate for equivalent maturities (%)	–0.1	0.4
Probability of reaching the performance target (%)	94.5	86.6

The parameters used in the valuation model were determined as follows: The share price used was in the fiscal year 2014 determined on a transaction basis, meaning it took historical share purchases into consideration. In the fiscal year 2015 market prices of traded Zalando shares were used. The expected volatility used in the model is primarily based on the past figures of comparable publicly listed companies. A best estimate was made for the expected life of the option in line with the factors regarding early exercise contained in IFRS 2.B18. The risk-free interest rate for equivalent maturities was calculated using the Svensson method. The probability that the performance target will be reached was determined based on market assumptions as far as possible.

CASH – SETTLED SHARE – BASED PAYMENT AWARDS

Zalando has issued a phantom option program to key members of management below the Management Board. Payment is triggered should an exit according to the terms of the remuneration agreement occur. One condition for paying out was fulfilled when the company went public in the prior year. The beneficiaries were entitled to a payment once they had met the respective tranche's period of service. As of the reporting date, either the individual employees had almost entirely reached the period of service, or the employees to receive the benefit had forfeited the tranches not yet vested in order to participate in the SOP 2014. The payment made in the fiscal year 2015 was determined using the number of virtual options multiplied by the issue price of EUR 21.50 from the IPO.

Zalando recognized a liability totaling EUR 0.1m for cash-settled share-based payments as of the reporting date (prior year: EUR 3.0m).

TOTAL EXPENSES RECOGNIZED FOR SHARE – BASED PAYMENT AWARDS

The expenses recognized for share-based payments awards in fiscal years 2015 and 2014 break down as follows:

66 EXPENSES FROM SHARE-BASED PAYMENTS

IN EUR M	JAN 1–DEC 31, 2015	JAN 1–DEC 31, 2014
Equity-settled	17.9	19.8
Cash-settled	0.0	1.0
Total expenses recognized	17.9	20.8

Expenses recorded in fiscal year 2014 from share-based equity-settled payments also included the discount given to employees in the course of the IPO for the subscription of shares in the company of EUR 1.0m.

(21.) PROVISIONS

Provisions developed as follows in the reporting year:

67 DEVELOPMENT OF PROVISIONS

IN EUR M	JAN 1, 2015	USAGE	ADDITION	INTEREST EXPENSE	DEC 31, 2015
Restoration obligations	5.5	0.3	3.2	0.0	8.5
Other provisions	0.8	0.5	0.3	0.0	0.6
Total	6.3	0.8	3.5	0.0	9.1

The provisions for restoration obligations exclusively relate to leasehold improvements. Other provisions pertain to provisions for retention obligations and onerous contracts.

The following table shows the maturities of the provisions at the end of fiscal year 2015:

68 MATURITY OF PROVISIONS

IN EUR M	DUE IN			TOTAL
	LESS THAN 1 YEAR	1-5 YEARS	MORE THAN 5 YEARS	
Restoration obligations	0.0	0.8	7.6	8.5
Other provisions	0.0	0.0	0.6	0.6
Total	0.0	0.8	8.3	9.1

(22.) GOVERNMENT GRANTS

These pertain solely to grants related to income for personnel costs. Zalando has met all of the payment conditions, but has yet to claim the funds in full.

(23.) TRADE PAYABLES AND SIMILAR LIABILITIES AND PREPAYMENTS RECEIVED

Trade payables and similar liabilities rose by EUR 153.7m to EUR 645.8m.

Moreover, under reverse factoring agreements, suppliers' claims against Zalando totaling EUR 170.9m were transferred to various factors as of December 31, 2015 (December 31, 2014: EUR 90.5m). These are recognized in the statement of financial position under trade payables and similar liabilities.

As in the prior year, there are no significant liabilities denominated in foreign currency as of the reporting date.

Prepayments received pertain to advance payments received from customers for orders.

(24.) OTHER CURRENT NON-FINANCIAL LIABILITIES, OTHER FINANCIAL LIABILITIES AND LIABILITIES FROM INCOME TAXES

Other current non-financial liabilities of EUR 66.1m (prior year: EUR 57.3m) mainly relate to liabilities from gift vouchers of EUR 11.2m (prior year: EUR 9.5m), liabilities to employees of EUR 9.4m (prior year: EUR 7.6m) as well as VAT liabilities of EUR 39.5m (prior year: EUR 37.1m). Liabilities from the sale of gift vouchers are recognized at the value of the anticipated utilization.

Other current financial liabilities of EUR 71.8m (prior year: EUR 61.9m) primarily comprise obligations to reimburse customers of EUR 46.1m (prior year: EUR 39.6m) for returns as well as debtors with credit balances of EUR 20.4m (prior year: EUR 14.3m).

(25.) BORROWINGS

Borrowings are due to banks and relate to the financing of fulfillment centers. For more information, please refer to section 03.5.8 Other notes – risks relating to financial instruments and financial risk management.

(26.) NOTES TO THE STATEMENT OF CASH FLOWS

The statement of cash flow shows how the group's cash and cash equivalents have changed over the reporting period as a result of cash inflows and outflows.

The cash flows from operating, investing and financing activities are divided according to their source and utilization. The change in the cash flow from operating activities is derived indirectly from the earnings before taxes. Cash inflows and outflows from investing and financing activities are calculated directly.

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

The capital employed in net working capital has remained stable as it stayed roughly neutral. Net working capital, consisting of inventories and trade and other receivables less trade payables and similar liabilities, amounted to EUR -2.6m as of December 31, 2015 (prior year: EUR -3.7m), and therefore remained virtually unchanged compared to the prior year.

The negative cash flow from investing activities results from investments in the logistics infrastructure relating primarily to the fulfillment centers in Erfurt and Mönchengladbach. In addition, there were capital expenditures on internally developed software and furniture and fixtures. In the reporting year, the group invested in time deposits with an original term of more than three months but less than twelve months. This is presented in the cash outflow from investing activities. As of December 31, 2015, an amount of EUR 155.0m was invested in such time deposits (prior year: EUR 0.0m).

Free cash flow decreased by EUR 81.2m on the prior year, falling from EUR 123.8m to EUR 42.6m in the fiscal year. The main factor in the deterioration is the lower cash inflow from operating activities and a rise in investments compared to the prior year.

In the prior year, the cash flow from financing activities was made up almost exclusively of capital contributions from the IPO in October 2014.

The sum of free cash and time deposits with an original term of more than three months but less than twelve months rose by EUR 80.3m on the prior year to EUR 1,131.2m on account of the positive free cash flow and the release of restricted cash.

(27.) DEFERRED TAXES

Deferred tax assets and liabilities recognized as of the reporting dates of the reporting and comparative periods break down as follows:

69 DEFERRED TAX ASSETS AND LIABILITIES

IN EUR M	DEFERRED TAX ASSETS		DEFERRED TAX LIABILITIES		NET BALANCE	
	DEC 31, 2015	DEC 31, 2014	DEC 31, 2015	DEC 31, 2014	DEC 31, 2015	DEC 31, 2014
Intangible assets	0.1	0.0	10.6	6.3	-10.5	-6.3
Property, plant and equipment	0.0	0.0	2.8	1.8	-2.8	-1.8
Inventories	0.0	0.0	1.2	0.9	-1.2	-0.9
Trade and other receivables	1.0	0.0	1.6	1.0	-0.6	-1.0
Provisions	2.4	1.6	0.0	0.0	2.4	1.6
Other financial and non-financial liabilities	1.7	1.1	0.0	0.1	1.6	1.0
Unused tax losses	57.8	5.7	0.0	0.0	57.8	5.7
Total	63.0	8.4	16.3	10.1	46.7	-1.7
Netting	-15.5	-7.5	-15.5	-7.5	0.0	0.0
Total recognized deferred tax assets and liabilities	47.5	0.9	0.8	2.6	46.7	-1.7

Changes in the fair values of hedging derivatives (cash flow hedges) in equity had an equity-reducing effect from deferred taxes of EUR 0.6m (prior year: EUR 0.4m), which are included in other comprehensive income. In addition, EUR 2.5m of the unused tax losses were offset against equity in the reporting year. This stems from the tax benefit from the transactions costs in connection with raising equity capital in 2014.

Deferred tax assets on unused tax losses in the 2015 reporting year pertain to ZALANDO SE (EUR 57.1m; prior year: EUR 4.8m) and the subsidiary zLabels GmbH (EUR 0.7m; prior year: EUR 0.9m). The amounts recognized are based on the tax results expected in the planning period.

Temporary differences in deferred tax liabilities of EUR 0.6m were recognized directly in equity (prior period: EUR 0.4m).

(28.) FINANCIAL INSTRUMENTS

70 CARRYING AMOUNTS OF FINANCIAL ASSETS/LIABILITIES AND THEIR FAIR VALUES 2015

AMOUNT RECOGNIZED IN THE STATEMENT OF FINANCIAL POSITION PURSUANT TO IAS 39						
IN EUR M	CATEGORY PURSUANT TO IAS 39*	CARRYING AMOUNT AS OF DEC 31, 2015	AMORTIZED COST	FAIR VALUE NOT THROUGH PROFIT AND LOSS	FAIR VALUE THROUGH PROFIT AND LOSS	FAIR VALUE AS OF DEC 31, 2015**
Assets						
Cash and cash equivalents	LaR	976.2	976.2	–	–	–
Trade receivables	LaR	149.7	149.7	–	–	–
Other financial assets	LaR	189.6	189.6	–	–	–
Derivative financial instruments designated as hedging instruments	n.a.	3.8	–	2.9	0.9	3.8
Liabilities						
Trade payables	FLAC	645.8	645.8	–	–	–
Financial liabilities	FLAC	17.6	17.6	–	–	18.4
Other financial liabilities	FLAC	72.9	72.9	–	–	–
Derivative financial instruments designated as hedging instruments	n.a.	1.1	–	1.1	–	1.1

*) LaR – Loans and Receivables

FLAC – Financial Liabilities measured at Amortized Cost

n.a. – not assigned to a category

**) Based on the simplification allowed under IFRS 7.29 the company assumed that for short term financial assets and liabilities accounted under amortized cost the book value fairly represents the fair value

71 CARRYING AMOUNTS OF FINANCIAL ASSETS/LIABILITIES AND THEIR FAIR VALUES 2014

		AMOUNT RECOGNIZED IN THE STATEMENT OF FINANCIAL POSITION PURSUANT TO IAS 39				
IN EUR M	CATEGORY PURSUANT TO IAS 39*	CARRYING AMOUNT AS OF DEC 31, 2014	AMORTIZED COST	FAIR VALUE NOT THROUGH PROFIT AND LOSS	FAIR VALUE THROUGH PROFIT AND LOSS	FAIR VALUE AS OF DEC 31, 2014**
Assets						
Cash and cash equivalents	LaR	1,051.0	1,051.0	–	–	–
Trade receivables	LaR	140.1	140.1	–	–	–
Other financial assets	LaR	61.3	61.3	–	–	–
Derivative financial instruments designated as hedging instruments	n.a.	1.7	–	1.7	–	1.7
Liabilities						
Trade payables	FLAC	492.1	492.1	–	–	–
Financial liabilities	FLAC	20.8	20.8	–	–	20.8
Other financial liabilities	FLAC	61.9	61.9	–	–	–
Derivative financial instruments designated as hedging instruments	n.a.	0.6	–	0.6	–	0.6

*} LaR – Loans and Receivables
FLAC – Financial Liabilities measured at Amortized Cost
n.a. – not assigned to a category

**} Based on the simplification allowed under IFRS 7.29 the company assumed that for short term financial assets and liabilities accounted under amortized cost the book value fairly represents the fair value

As of the reporting date, Zalando had forward exchange contracts in pounds sterling, Norwegian kroner, Polish zloty, Swedish kronor, Swiss francs and US dollars as well as interest rate swaps in euros.

The nominal and market values of the derivative financial instruments are as follows as of the reporting date:

72 NOMINAL AMOUNTS AND MARKET VALUES OF DERIVATIVE FINANCIAL INSTRUMENTS

IN EUR M	MARKET VALUE				NOMINAL VALUE DEC 31, 2014	MARKET VALUE DEC 31, 2014
	NOMINAL VALUE	ASSETS	LIABILITIES	TOTAL		
	DEC 31, 2015	DEC 31, 2015	DEC 31, 2015	DEC 31, 2015		
Forward exchange contracts designated as hedging instruments	295.5	3.8	0.7	3.1	133.3	1.6
Interest rate swaps designated as hedging instruments	11.0	0.0	0.4	-0.4	13.1	-0.5
Total	306.5	3.8	1.1	2.7	146.4	1.1

The nominal amounts correspond to the sum of all the non-netted purchases and sales amounts of the derivative financial transactions. The market values reported correspond to the fair value. The fair values of the derivative financial instruments were calculated without taking into account opposite developments in the value of the hedged items.

The market values of the interest swaps designated to a hedging relationship as well as interest rate swaps that are not designated to a hedging relationship are reported in the statement of financial position under other non-current financial liabilities and assets.

The market values of forward exchange contracts designated to a hedging relationship are reported in the statement of financial position under other current financial assets and liabilities.

In the event that all contractual partners fail to meet their obligations from the forward exchange contracts, the credit risk for the group amounts to EUR 3.0m as of the reporting date (prior year: EUR 1.6m).

The forward exchange contracts in place as of the reporting date have a remaining term of up to one year.

In the reporting period, income from fair value measurement of financial instruments designated as a cash flow hedge of EUR 0.6m (prior year: EUR 1.6m) was recognized directly in equity.

NET GAINS AND LOSSES FROM FINANCIAL ASSETS AND FINANCIAL LIABILITIES

The net gains/losses from financial assets and financial liabilities contain effects from the fair value measurement of derivatives that are not designated as a hedge and changes in the fair value of other financial instruments as well as interest payments. In addition, the net gains/losses contain effects from the impairment losses, reversals of impairment losses, derecognition and exchange rate fluctuations of loans and receivables as well as liabilities measured at amortized cost.

73 NET GAINS AND LOSSES FROM FINANCIAL INSTRUMENTS 2015

	FROM INTEREST AFFECTING PROFIT OR LOSS	FROM SUBSEQUENT MEASUREMENT AFFECTING PROFIT OR LOSS			FROM DISPOSAL AFFECTING PROFIT OR LOSS	TOTAL 2015
IN EUR M		AT FAIR VALUE	CURRENCY TRANS- LATION	ALLOW- ANCES		
Loans and receivables	0.3	0.0	0.4	-80.9	-24.1	-104.3
Liabilities in the category measured at amortized cost	-5.0	0.0	-0.2	0.0	0.0	-5.2
Total	-4.7	0.0	0.2	-80.9	-24.1	-109.5

74 NET GAINS AND LOSSES FROM FINANCIAL INSTRUMENTS 2014

	FROM INTEREST AFFECTING PROFIT OR LOSS	FROM SUBSEQUENT MEASUREMENT AFFECTING PROFIT OR LOSS			FROM DISPOSAL AFFECTING PROFIT OR LOSS	TOTAL 2014
IN EUR M		AT FAIR VALUE	CURRENCY TRANS- LATION	ALLOW- ANCES		
Loans and receivables	-0.2	0.0	0.8	-23.2	0.7	-21.9
Liabilities in the category measured at amortized cost	-3.4	0.0	0.0	0.0	0.8	-2.6
Total	-3.6	0.0	0.8	-23.2	1.5	-24.5

FAIR VALUE HIERARCHY

As of the reporting date, the group held financial assets and financial liabilities measured at fair value. These financial instruments are classified within a three-level fair value hierarchy.

With regard to financial instruments that are regularly measured at fair value, the group determines whether items are to be reclassified between hierarchy levels. This is determined by reassessing the inputs of the lowest level that is of significance for fair value measurement as of the end of the reporting period.

As in the prior year, derivative financial instruments that are designated as a hedge are allocated to level 2. The forward exchange contracts are measured based on observable spot foreign exchange rates and the interest yield curves of the corresponding currencies. Hedging instruments used to hedge the interest exposure are measured by discounting the future cash flows using a discount rate for instruments of equivalent terms. Beyond these, there are no input factors that cannot be observed.

OFFSETTING

Zalando concludes agreements for derivative financial instruments in accordance with the global netting agreements of the ISDA (International Swaps and Derivatives Association) and other comparable national framework agreements. The requirements according to IAS 32.42 on presenting a net amount of financial instruments recognized in the statement of financial position is typically not met, as they only grant the right to offset for future events, for instance the default of one of the contractual parties.

Financial assets and liabilities that are subject to netting agreements or similar contracts are presented below.

75 NETTING OF FINANCIAL INSTRUMENTS 2015

IN EUR M	GROSS AMOUNT	AMOUNT NETTED IN THE STATEMENT OF FINANCIAL POSITION	NET AMOUNT SHOWN IN THE STATEMENT OF THE FINANCIAL POSITION	ASSOCIATED AMOUNTS NOT NETTED IN THE STATEMENT OF FINANCIAL POSITION	NET AMOUNT AS OF DEC 31, 31.12.2015
Financial assets					
Derivative financial assets	3.8	0.0	3.8	0.7	3.1
Financial liabilities					
Derivative financial liabilities	1.1	0.0	1.1	0.7	0.4

76 NETTING OF FINANCIAL INSTRUMENTS 2014

IN EUR M	GROSS AMOUNT	AMOUNT NETTED IN THE STATEMENT OF FINANCIAL POSITION	NET AMOUNT SHOWN IN THE STATEMENT OF THE FINANCIAL POSITION	ASSOCIATED AMOUNTS NOT NETTED IN THE STATEMENT OF FINANCIAL POSITION	NET AMOUNT AS OF DEC 31, 31.12.2014
Financial assets					
Derivative financial assets	1.7	0.0	1.7	0.1	1.6
Financial liabilities					
Derivative financial liabilities	0.6	0.0	0.6	0.1	0.5

03.5.8 OTHER NOTES**RISKS RELATING TO FINANCIAL INSTRUMENTS
AND FINANCIAL RISK MANAGEMENT**

In the course of its ordinary activities, Zalando is exposed to credit risks, liquidity risks and market risks (currency and interest rate risks). The aim of financial risk management is to limit the risks resulting from operating activities through the use of selected derivative and non-derivative hedging instruments. The derivative financial instruments are used in the group solely for the purpose of risk management. Zalando would be exposed to higher financial risks if it did not use these instruments. The group's management is responsible for the management of the risks.

Changes in exchange rates and interest rates can lead to considerable fluctuations in the market values of the derivatives used. These market value fluctuations should therefore not be considered in isolation from the hedged items, as derivatives and hedged items form a unit in terms of their offsetting developments in value.

MARKET RISK

Market risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risks include interest rates, currency and other price risks.

The currency risk can be broken down into two further types of risk – the transaction risk and the translation risk. The translation risk describes the risk of changes in the items in the statement of financial position and income statement of a subsidiary due to exchange rate changes when translating the local separate financial statements into the group's currency. The changes caused by currency fluctuations from the translation of items in the statement of financial position are presented in equity. Zalando is not currently exposed to such a risk.

The transaction risk relates to the fact that exchange rate fluctuations can lead to changes in value of future foreign currency payments. Zalando makes purchases and sales in foreign currencies. Forward exchange contracts are used to hedge these activities. Derivative financial instruments are concluded and processed in accordance with internal guidelines that set out binding rules for the scope of action, responsibilities and reporting and controls.

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

If the euro had appreciated by 5% against the foreign currencies as of December, 31, 2015, earnings before taxes would have been EUR 5.4m lower (prior year: EUR 4.7m). If the euro had depreciated 5% compared with the exchange rate as of December, 2015 earnings before taxes would have been EUR 6.0m higher (prior year: EUR 5.9m).

The reserve for derivatives in group equity would have been EUR 11.8m higher (prior year: EUR 5.0m higher) if the euro had appreciated 5% compared with the exchange rate as of December 31, 2015. This reserve would have been EUR 13.1m lower (prior year: EUR 5.3m lower) if the euro had depreciated 5%.

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

The interest rate risk for floating-rate financial instruments doesn't represent a material risk for the group.

CREDIT RISK

Credit risk is the risk of a customer or contractual partner defaulting on payment, resulting in the assets, financial assets or receivables reported in the consolidated statement of financial position having to be written down. Credit risks primarily concern trade receivables. The credit risk is provided for by portfolio-based valuation allowances based on historical experience and the maturity profile. Uncollectible receivables are written off in full individually.

There is no significant concentration of credit risk.

In addition, there is a credit risk for cash and cash equivalents that banks can no longer meet their obligations. The maximum exposure corresponds to the carrying amounts of these financial assets at the end of the respective reporting period. This credit risk is limited by holding deposits at different banks with good credit standing and money market funds with an AAA-rating (according to Standard & Poor's).

LIQUIDITY RISK

Liquidity risk is the risk that Zalando will not be in a position to settle the financial liabilities when they fall due. For this reason, the main objective of liquidity management is to ensure the group's ability to pay at all times. This risk is mitigated by ongoing planning of liquidity requirements and by monitoring liquidity. Zalando controls its liquidity by maintaining sufficient cash and cash equivalents and lines of credit at banks in addition to cash inflows from operating activities.

To reduce the liquidity risk further, reverse factoring agreements have been entered into with various suppliers and with numerous financial services providers. Under these agreements, the factor purchases the claims held by the respective supplier against Zalando. These are recognized in the consolidated statement of financial position under trade payables and similar liabilities.

The tables below show the contractually agreed (undiscounted) interest and principal payments for primary financial liabilities and for derivative financial instruments with their negative fair value. All instruments in the portfolio as of December 31, 2015 and December 31, 2014 and for which payments had already been contractually agreed were included. Planned figures for new future liabilities were not included. The floating-rate interest payments from the financial instruments were determined based on the interest rates most recently fixed before December 31, 2015 and December 31, 2014, respectively. All on-call financial liabilities are always allocated to the earliest possible date.

77 PAYMENTS FOR FINANCIAL LIABILITIES AND DERIVATIVE FINANCIAL INSTRUMENTS 2015

	CARRYING AMOUNT	CASH FLOWS 2016		CASH FLOWS 2017–2020		CASH FLOWS 2021 FF.	
IN EUR M	DEC 31, 2015	INTEREST	REPAY- MENTS	INTEREST	REPAY- MENTS	INTEREST	REPAY- MENTS
Borrowings	17.6	0.5	3.2	1.2	11.7	0.1	2.7
Trade payables and similar liabilities	645.8	0.8	645.8	0.0	0.0	0.0	0.0
Other financial liabilities	74.0	0.1	71.8	0.3	2.1	0.1	0.0
of which from derivatives	1.1	0.1	0.7	0.3	0.0	0.0	0.0
Total	737.4	1.5	720.9	1.5	13.8	0.2	2.7

78 PAYMENTS FOR FINANCIAL LIABILITIES AND DERIVATIVE FINANCIAL INSTRUMENTS 2014

	CARRYING AMOUNT	CASH FLOWS 2015		CASH FLOWS 2016–2019		CASH FLOWS 2021 FF.	
IN EUR M	DEC 31, 2014	INTEREST	REPAY- MENTS	INTEREST	REPAY- MENTS	INTEREST	REPAY- MENTS
Borrowings	20.8	0.7	3.2	1.0	12.0	0.2	5.6
Trade payables and similar liabilities	492.1	0.6	492.1	0.0	0.0	0.0	0.0
Other financial liabilities	62.5	0.0	61.9	0.0	0.6	0.0	0.0
of which from derivatives	0.6	0.0	0.6	0.0	0.0	0.0	0.0
Total	575.4	1.3	557.2	1.0	12.6	0.2	5.6

CAPITAL MANAGEMENT

The objectives of capital management at the group are short-term solvency and an adequate capital base to finance projected growth, while sustainably increasing the business value. This ensures that all group entities can operate on a going concern basis.

Capital management and its objectives and definition are based on key performance indicators derived from the consolidated financial statements in accordance with IFRSs. Zalando defined the equity ratio key performance indicator as the ratio of equity to total assets and the net working capital key performance indicator as the sum of inventories and trade receivables less trade payables and similar liabilities. The equity ratio stood at 60.1% as of the reporting date (prior year: 63.1%) and net working capital came to EUR –2.6m as of the reporting date (prior year: EUR –3.7m). The company achieved the key performance indicator targets set by management both in the fiscal year and in the prior year.

COLLATERAL

Zalando pledged financial assets as collateral of EUR 14.0m in the reporting period (prior year: EUR 48.3m). They mainly relate to collateral in connection with lease and loan agreements. The collateral provided may be drawn upon by the beneficiaries should the group not be able to fulfill its payment obligations.

INFORMATION ABOUT RELATED PARTIES

Zalando identified the related parties of ZALANDO SE in accordance with IAS 24.

Zalando had transactions with related parties in the reporting period in the ordinary course of business. The transactions were carried out in accordance with the arm's length principle.

These goods and services give rise to liabilities of EUR 40.1m as of the reporting date (prior year: EUR 32.0m). Of this amount, EUR 40.1m (prior year: EUR 30.2m) is due to a reverse factoring provider on account of reverse factoring agreements between Zalando and related parties. As a result, there are no trade payables or similar liabilities due directly to related parties (as of December 31, 2014: EUR 1.8m).

Merchandise of EUR 98.2m was ordered from related parties in the reporting period. The order volume totaled EUR 75.7m in the comparative period of the prior year. The cost of services received came to EUR 0.5m in the reporting period (prior year: EUR 0.6m).

Related party transactions generally do not differ from the trade relationships with third parties.

Related parties controlled by ZALANDO SE are listed in the list of shareholdings.

The members of the Management Board and Supervisory Board were identified as related parties of ZALANDO SE in accordance with the principles contained in IAS 24. The Management Board of ZALANDO SE is made up as follows:

MEMBER OF THE MANAGEMENT BOARD**79 MEMBER OF THE MANAGEMENT BOARD**

	PROFESSION
Robert Gentz	Management Board member with focus on technology, human resources and strategy
David Schneider	Management Board member with focus on brand marketing, sourcing and private labels
Rubin Ritter	Management Board member with focus on operations, sales finance and corporate governance



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MEMBER OF THE SUPERVISORY BOARD

80 MEMBER OF THE SUPERVISORY BOARD

	PROFESSION HELD	MEMBER OF THE SUPERVISORY BOARD SINCE
Cristina Stenbeck (Chairperson of the Supervisory Board)	Executive Chair of Board of Directors Investment AB Kinnevik, Stockholm, Sweden	Feb 10, 2014
Lorenzo Grabau (Vice Chairperson)	CEO of Investment AB Kinnevik, Stockholm, Sweden	Dec 12, 2013
Anders Holch Povlsen	CEO of Bestseller A/S, Brande, Denmark	Dec 12, 2013
Lothar Lanz	Supervisory Board member, in particular Axel Springer SE, Berlin	Feb 10, 2014
Kai-Uwe Ricke	Entrepreneur	June 3, 2014
Alexander Samwer	Entrepreneur and founder	Dec 12, 2013
Konrad Schäfers	Finance ZALANDO SE, Berlin	June 2, 2015
Dylan Ross	Men's Nordic Buying Office ZALANDO SE, Berlin	June 2, 2015
Beate Siert	International Affiliate Marketing ZALANDO SE, Berlin	June 2, 2015

The term of office of Mrs. Christine de Wendel, Mr. Benjamin Krümel and Mr. Christoph Stark expired on June 2, 2015.

The members of the Management Board and Supervisory Board only receive remuneration relating to their function as persons in key positions.

In fiscal year 2015, expenses of EUR 8.4m were recorded for the members of management who hold key positions in the group (prior year: EUR 13.7m). Of this amount, EUR 7.8m is attributable to share-based payment awards in fiscal year 2015 (prior year: EUR 13.1m). The expenses for share-based payment awards are calculated using graded vesting, which means that the plan expense gradually decreases over the course of the vesting period. All other remuneration is classified as short-term benefits.

The share-based payments were granted in the fiscal years 2011 and 2013. They can vest over a certain period of time and will be included in the total remuneration over this time period based on the service rendered in the respective fiscal year. The share-based payment awards granted to key management personnel are included in the plans explained in note 03.5.7 (20.) of the notes to the consolidated financial statements.

RENUMERATION OF THE MANAGEMENT BOARD AND SUPERVISORY BOARD OF ZALANDO SE

Total remuneration of the Management Board totaled EUR 0.7m in fiscal year 2015 (prior year: EUR 0.6m). No new option rights were granted to the Management Board in fiscal year 2015 (prior year: 0 options). Further information regarding section 314 (1) No. 6a HGB can be found in the remuneration report, which is presented in the corporate governance report and is part of the combined management report.

The members of the Supervisory Board received remuneration of EUR 0.6m in fiscal year 2015 (prior year: EUR 0.3m). The Management Board and Supervisory Board propose to the annual general meeting granting remuneration in accordance with the provision contained in Art. 15 of ZALANDO SE's Articles of Association.

CORPORATE GOVERNANCE DECLARATION

The declaration by the management board and the Supervisory Board regarding the Corporate Governance Code [Corporate Governance Kodex] pursuant to section 161 AktG of December 2014 is published on the Company's website.

OTHER FINANCIAL OBLIGATIONS

The group has other financial obligations from the acquisition of property, plant and equipment of EUR 20.0m.

AVERAGE NUMBER OF EMPLOYEES

The average of employees by individual business unit as of the reporting date is presented below:

81 AVERAGE NUMBER OF EMPLOYEES

	2015	2014
Commercial	1,058	887
Operations	5,885	4,813
Technology	841	600
Other	1,420	1,196
Total	9,205	7,496

OPERATING LEASES

The group has obligations from operating leases for real estate, furniture and fixtures and for motor vehicles. The contracts have remaining terms of between one and ten years. Some contain renewal and purchase options and escalation clauses, which do not, however, affect the classification of the leases as operating leases.

The expenses recognized from operating leases came to EUR 28.5m in the reporting period (prior year: EUR 26.0m). Future minimum lease payments under non-cancelable operating leases are shown in the following table:

82 FUTURE MINIMUM LEASE PAYMENTS

IN EUR M	LESS THAN 1 YEAR	1-5 YEARS	MORE THAN 5 YEARS	TOTAL
Dec 31, 2015	26.5	92.9	54.8	174.2
Dec 31, 2014	29.2	79.4	74.1	182.7

The future minimum receipts from non-cancelable operating sub-leases are as follows:

83 FUTURE MINIMUM LEASE RECEIPTS

IN EUR M	LESS THAN 1 YEAR	1-5 YEARS	MORE THAN 5 YEARS	TOTAL
Dec 31, 2015	0.1	0.0	0.0	0.1
Dec 31, 2014	0.8	0.0	0.0	0.8

AUDITOR'S FEES

The fees recognized as expenses for the auditor, Ernst & Young GmbH Wirtschaftsprüfungsgesellschaft, Stuttgart, amount to:

- EUR 0.5m for the audit (separate and consolidated financial statements) (prior year: EUR 0.7m),
- EUR 0.2m for other assurance services (prior year: EUR 0.3m) and
- EUR 0.1m for other services (prior year: EUR 1.3m).

SHAREHOLDINGS

ZALANDO SE's direct and indirect shareholdings in its subsidiaries and associated companies as of December 31, 2015 can be summarized as follows:

84 LIST OF SHAREHOLDINGS

NO.	COMPANY	COMPANY DOMICILE	CURRENCY	SHARE OF EQUITY HELD BY*	SHARE IN CAPITAL IN % 2015
Subsidiaries					
1	zLabels GmbH	Berlin	EUR	Directly	100.0
2	Zalando Operations GmbH	Berlin	EUR	Directly	100.0
3	Zalando Logistics SE & Co. KG	Brieselang	EUR	Directly 2	99.0 1.0
4	Zalando Logistics Mönchengladbach SE & Co. KG	Mönchengladbach	EUR	Directly 2	99.0 1.0
5	Zalando Logistics Süd SE & Co. KG	Berlin	EUR	Directly 2	99.0 1.0
6	Zalando S.A.S.	Paris, France	EUR	Directly	100.0
7	Zalando Customer Care DACH SE & Co. KG	Berlin	EUR	Directly 2	99.0 1.0
8	Zalando Customer Care International SE & Co. KG	Berlin	EUR	Directly 2	99.0 1.0
9	Zalando Content Creation SE & Co. KG	Berlin	EUR	Directly 2	99.0 1.0
10	MyBrands Zalando eStyles SE & Co. KG	Berlin	EUR	Directly 2	99.0 1.0
11	Zalando Fashion Entrepreneurs GmbH	Berlin	EUR	Directly	100.0
12	Zalando Lounge Service GmbH	Berlin	EUR	Directly	100.0
13	zOutlet Berlin GmbH	Berlin	EUR	Directly	100.0

NO.	COMPANY	COMPANY DOMICILE	CURRENCY	SHARE OF EQUITY HELD BY *	SHARE IN CAPITAL IN % 2015
14	zOutlet Frankfurt GmbH	Frankfurt/ Main	EUR	Directly	100.0
15	Zalando Ireland Ltd	Dublin, Ireland	EUR	Directly	100.0
16	Zalando Finland Oy	Helsinki, Finland	EUR	Directly	100.0
17	Metrigo GmbH	Hamburg	EUR	Directly	100.0
18	Bread & Butter GmbH & Co. KG	Berlin	EUR	Directly 2	99.0 1.0
19	Portokali Property Development III SE & Co. KG	Berlin	EUR	Directly 2	99.9 0.1
20	Fashion Connectivity Technologies GmbH	Berlin	EUR	Directly	100.0
21	Mobile Fashion Discovery GmbH	Berlin	EUR	Directly	100.0
22	Zalando Media Solutions GmbH	Berlin	EUR	Directly	100.0
23	Bread & Butter Tradeshow Verwaltungs GmbH	Berlin	EUR	18	100.0
24	zLabels Trading Ltd	Hong Kong, Hong Kong	HKD	1	100.0
Associated companies					
25	Anatwine Ltd	Cheltenham, United Kingdom	GBP	Directly	20.0

*} The number refers to the number of the company

DISCLOSURE EXEMPTIONS

In accordance with section 264b HGB, the partnerships listed as shareholdings are exempt from the requirement to disclose their financial statements and to prepare notes to the financial statements and a management report. In accordance with the provisions of section 264 (3) HGB, Zalando Lounge Service GmbH, zOutlet Berlin GmbH, zOutlet Frankfurt GmbH and Zalando Fashion Entrepreneurs GmbH are exempt from the requirement to disclose their financial statements and to prepare notes to the financial statements and a management report.

SEGMENT REPORTING

Reporting on the business segments is in line with the internal reporting. The reporting to the top body of management of ZALANDO SE for purposes of internal control fundamentally corresponds to the principles of financial reporting described in section 03.5.3 in accordance with IFRSs.

ZALANDO SE's internal reporting structure is based initially on a sales channel related perspective. In a second step, the Management Board also monitors the development of the business for the main sales channel Zalando Shop according to a geographical breakdown into the regions DACH (Germany, Austria and Switzerland), northern Europe (Sweden, Finland, Denmark and Norway), southern Europe (France, Italy and Spain), and eastern and western Europe (the Netherlands, Belgium, Poland, Luxembourg and the United Kingdom). For external reporting purposes, regions outside of DACH are summarized in the Rest of Europe reporting segment. The main sales channel Zalando Shop comprises the revenue for all countries from the sale of shoes, clothing and accessories via the respective country-specific Zalando portal. All other sales channels are grouped in the Other segment. The largest share of revenue stems from the sales channel Zalando Lounge and the new portfolio initiatives. The revenue from the Zalando

Lounge stems from additional sales campaigns for selected products at reduced prices for registered users. The products sold by Zalando are all allocable to the Fashion & Lifestyle product group.

The Management Board measures the performance of the segments on the basis of the EBIT calculated in accordance with IFRSs. EBIT for segment reporting purposes is defined as earnings before interest and taxes. There are no intersegment transactions in the internal reporting structure. No information on segment assets or liabilities is available or relevant for decision-making.

SEGMENT REPORTING 2015

86 SEGMENT REPORTING 2015

IN EUR M	DACH	REST OF EUROPE	OTHER	TOTAL 2015
Revenue	1,580.1	1,211.6	166.5	2,958.2
Cost of sales	-828.4	-706.6	-89.0	-1,624.0
Gross profit	751.6	505.1	77.4	1,334.1
Selling and distribution costs	-593.6	-467.3	-58.0	-1,118.9
Administrative expenses	-68.0	-49.2	-11.9	-129.0
Other operating income	5.6	4.4	0.2	10.2
Other operating expenses	-3.5	-3.2	-0.2	-7.0
Earnings before interest and taxes (EBIT)	92.2	-10.2	7.5	89.6

SEGMENT REPORTING 2014

87 SEGMENT REPORTING 2014

IN EUR M	DACH	REST OF EUROPE	OTHER	TOTAL 2015
Revenue	1,234.0	862.6	117.4	2,214.0
Cost of sales	-678.1	-518.3	-58.9	-1,255.3
Gross profit	555.9	344.3	58.5	958.7
Selling and distribution costs	-428.0	-327.0	-38.8	-793.8
Administrative expenses	-58.5	-39.5	-11.2	-109.2
Other operating income	6.4	5.4	0.4	12.2
Other operating expenses	-3.5	-1.8	-0.5	-5.8
Earnings before interest and taxes (EBIT)	72.3	-18.6	8.4	62.1

Of the total revenue generated in the DACH region, Germany accounts for 65.3% (prior year: 70.7%). In the Other reporting segment, Germany accounts for 42.4% of total revenue (prior year: 48.2%). The non-current assets of the group are located in Germany.

Cost of sales include impairments of inventories for the DACH segment of EUR 38.3m (prior year: EUR 36.1m), for the Rest of Europe segment of EUR 34.0m (prior year: EUR 24.5m) and for the Other segment of EUR 7.6m (prior year: EUR 2.8m).

The selling and distribution costs contain impairments of trade receivables and write-downs due to uncollectible receivables for the DACH segment of EUR 76.0m (prior year: EUR 16.8m), for the Rest of Europe segment of EUR 27.4m (prior year: EUR 6.5m) and for the Other segment of EUR 1.6m (prior year: EUR 0.5m).

Total expenses include depreciation and amortization of property, plant and equipment and intangible assets for the DACH segment of EUR 18.8m (prior year: EUR 14.5m), for the Rest of Europe segment of EUR 13.0m (prior year: EUR 8.4m) and for the Other segment of EUR 2.4m (prior year: EUR 2.9m).

The group's financial result is not allocated to the segments.

SUBSEQUENT EVENTS

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

AUTHORIZATION OF THE FINANCIAL STATEMENTS FOR ISSUE

The consolidated financial statements and group management report of ZALANDO SE are published in the Bundesanzeiger [German Federal Gazette]. The consolidated financial statements and the group management report were authorized for issue by the Management Board on February 29, 2016.

Berlin, February 29, 2016

The Management Board

Robert Gentz

David Schneider

Rubin Ritter

03.6 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 29, 2016

The Management Board

Robert Gentz

David Schneider

Rubin Ritter

03.7 AUDIT OPINION

We have audited the consolidated financial statements prepared by ZALANDO SE, Berlin, comprising the consolidated statement of comprehensive income, the consolidated statement of financial position, the consolidated statement of changes in equity, the consolidated statement of cash flows and the notes to the consolidated financial statements, together with the combined management report for the fiscal year from January 1 to December 31, 2015. The preparation of the consolidated financial statements and the combined management report in accordance with IFRSs as adopted by the EU and the additional requirements of German commercial law pursuant to section 315a (1) HGB [“Handelsgesetzbuch”: German Commercial Code] is the responsibility of the company’s management. Our responsibility is to express an opinion on the consolidated financial statements and the combined management report based on our audit.

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

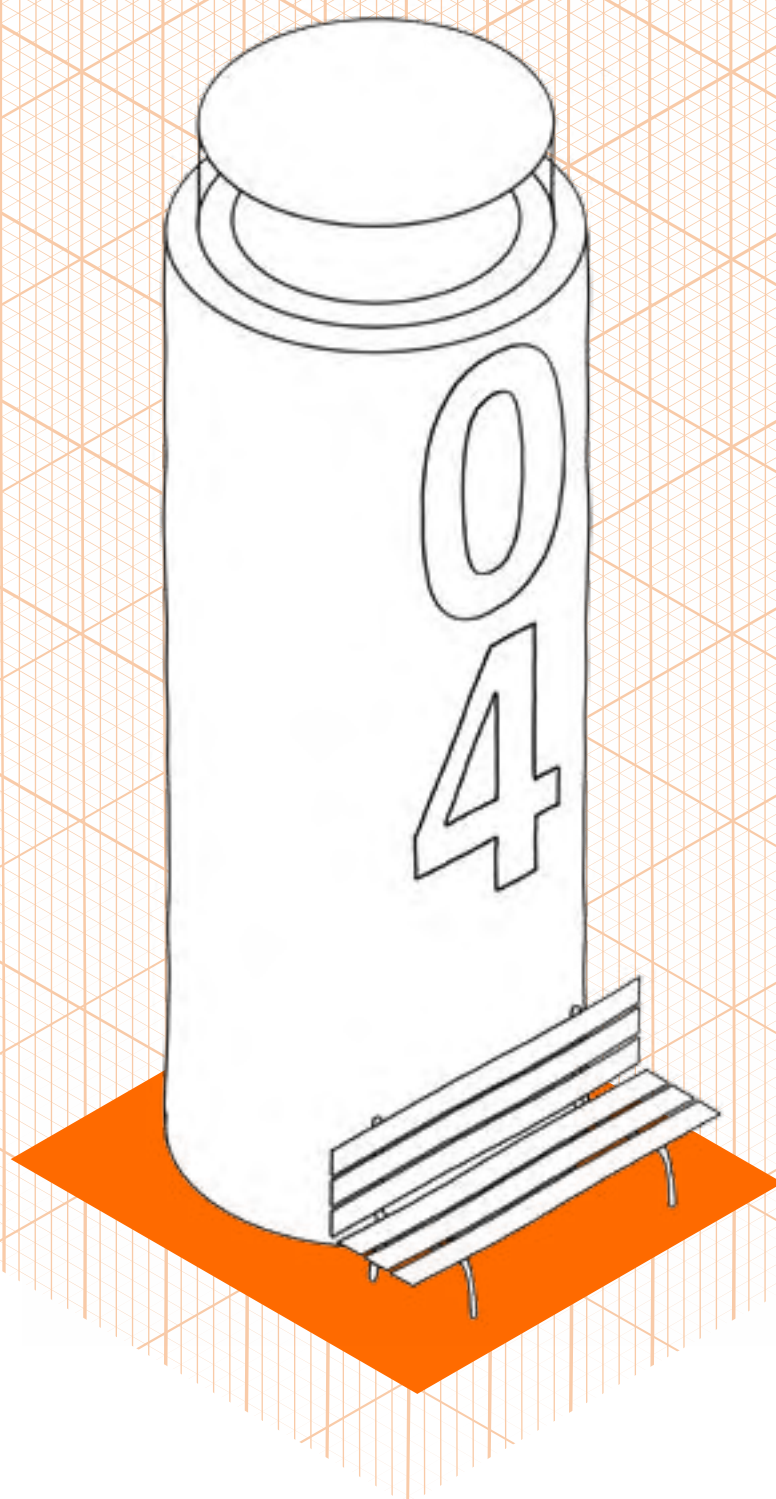
Our audit has not led to any reservations.

In our opinion, based on the findings of our audit, the consolidated financial statements comply with IFRSs as adopted by the EU as well as the additional requirements of German commercial law pursuant to section 315a (1) HGB and give a true and fair view of the net assets, financial position and results of operations of the group in accordance with these requirements. The combined management report is consistent with the consolidated financial statements and as a whole provides a suitable view of the group’s position and suitably presents the opportunities and risks of future development.

Berlin, February 29, 2016

Ernst & Young GmbH
Wirtschaftsprüfungsgesellschaft

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



04

SERVICE

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04.1 GLOSSARY

Active customers

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

Adjusted EBIT

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

Adjusted EBITDA

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

Adjusted fulfillment cost ratio

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

Adjusted marketing cost ratio

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

Apps

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

Average basket size

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

Average orders per active customer

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

Brand lookbook

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

Brand shop

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

Brand solutions

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

Content creation

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

Content management system

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

Customer service

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

EBIT

EBIT is short for "earnings before interest and taxes".

EBITDA

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

EBIT margin

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

Fashion blogger

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

Fast fashion

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

Flagship store

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

Free cash flow

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

Hack Week

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

Influencer

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

Merchandiser

Merchandisers showcase brands to promote the sale of products.

Mobile commerce

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

Mobile visit share (as % of site visits)

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

m.sites

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

Net working capital

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

Number of orders

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

Private labels

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

Push notifications

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

Site visits

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

Smart data

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

Social media

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

Trendscout

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

t.sites

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

Win-win solutions

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

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04.2.1 CHARTS

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04.3 FINANCIAL CALENDAR 2016

88 FINANCIAL CALENDAR

DATE	EVENT
Tuesday, March 22/ Wednesday, March 23	Capital Markets Day 2016
Thursday, May 12	Publication of the First Quarter Results 2016
Tuesday, May 31	Annual general meeting 2016
Thursday, August 11	Publication of the Second Quarter Results 2016
Thursday, November 10	Publication of the Third Quarter Results 2016

04.4 IMPRINT

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Statement relating to the future

This annual report contains 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 annual report is available in English. If there are variances, the German version has priority over the English translation. It is available for download in both languages at <https://corporate.zalando.de/de/ir>.

