ANNUAL REPORT 2016

zalando

LOCATION MAP OF EUROPE

SHORT PROFILE

FOUNDED IN 2008 IN BERLIN, ZALANDO SE IS EUROPE'S LEADING ONLINE FASHION PLATFORM AND CONNECTS CUSTOMERS, BRANDS, AND PARTNERS.

In our fashion store, customers can find a wide range of clothing, shoes, and accessories from more than 1,500 brands in 15 countries: ranging from globally renowned labels, local, and fast-fashion brands to self-designed private labels.

WELCOME TO ZALANDO CITY

Our platform is a place of inspiration, innovation, and interaction. A city with a living history and dynamic growth.

At Zalando, we develop solutions based on our central pillars of fashion, technology, and operations that are tailored to the local needs of our customers, partners, and many other players.

LOCATION MAP OF GERMANY

SEGMENT FIGURES

		2016	2015
Earnings position segments			
Revenue DACH	IN EUR M	1,813.8	1,580.1
Adjusted EBIT DACH	IN EUR M	226.3	101.9
Adjusted EBIT DACH	IN % OF REVENUE	12.5	6.4
Revenue Rest of Europe	IN EUR M	1,570.2	1,211.6
Adjusted EBIT Rest of Europe	IN EUR M	–3.3	–3.3
Adjusted EBIT Rest of Europe	IN % OF REVENUE	–0.2	–0.3

ZALANDO AT A GLANCE

KEY FIGURES

	JAN 1 – DEC 31, 2016	JAN 1 – DEC 31, 2015	Change
Group key performance indicators			
Site visits (in millions)	1,991.6	1,656.4	20.2%
Mobile visit share (in %)	65.6	57.1	8.5pp
Active customers (in millions)	19.9	17.9	10.9%
Number of orders (in millions)	69.2	55.3	25.2%
Average orders per active customer	3.5	3.1	12.9%
Average basket size (in EUR)	66.6	67.8	–1.8%
Adjusted marketing cost ratio (in % of revenue)	10.3	11.7	–1.4pp
Adjusted fulfillment cost ratio (in % of revenue)	23.2	25.8	–2.6pp
Results of operations			
Revenue (in millions)	3,639.0	2,958.2	23.0%
EBIT (in millions)	207.0	89.6	>100.0%
EBIT (in % of revenue)	5.7	3.0	2.7pp
Adjusted EBIT (in EUR m)	216.3	107.5	>100.0%
Adjusted EBIT (in % of revenue)	5.9	3.6	2.3pp
Financial position			
Net working capital (in EUR m)	–127.6	–2.6	>100.0%
Equity ratio (in % of balance sheet total)	55.5	60.1	–4.6pp
Cash flow from operating activities (in EUR m)	275.8	119.4	>100.0%
Cash flow from investing activities (in EUR m)	–277.1	–196.5	41.0%
Cash and cash equivalents (in EUR m)	972.6	976.2	–3.7%
Other			
Employees (as of the reporting date)	11,998	9,987	20.1%
Basic earnings per share (in EUR)	0.49	0.49	–

pp = percentage points

about 200,000
fashion items

more than 1,600
tech employees

1% of our EBIT
dedicated to social impact

Zalando City

Connecting people and fashion

EASY NAVIGATION MENU

Zalando strategy

Further information in the report

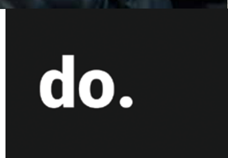
Further information on the internet

For the quick reader

Experience Zalando – follow this link for extra content

Further information in the Zalando City Guide

Content



01 COMPANY

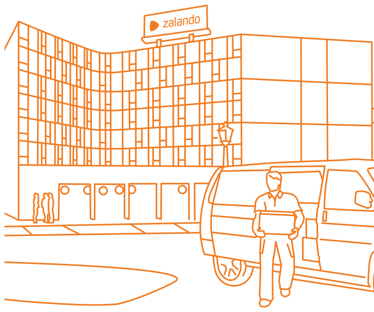
02 COMBINED MANAGEMENT REPORT

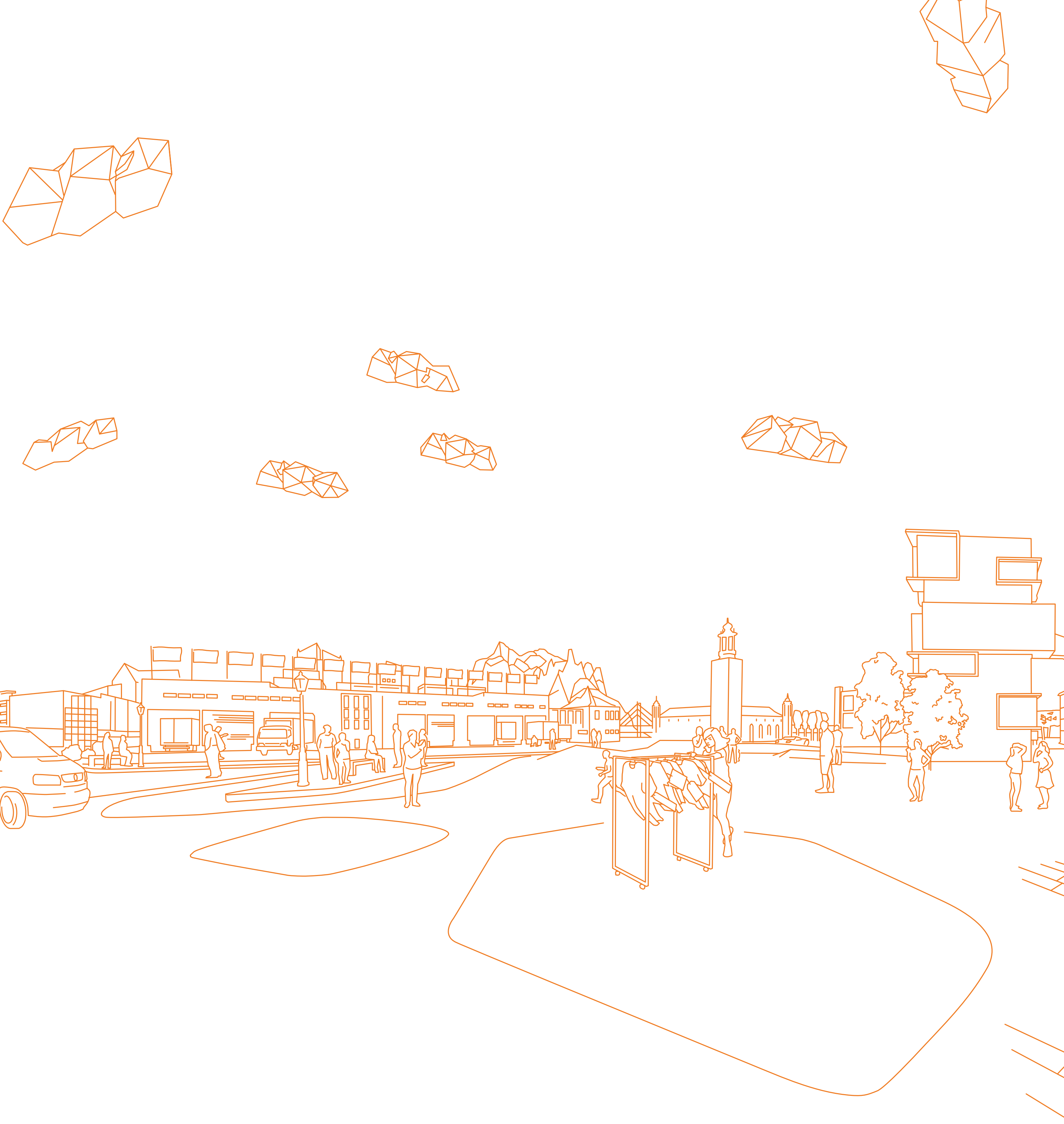
03 CONSOLIDATED FINANCIAL STATEMENTS

04 SERVICE

01

COMPANY





DISCOVER ZALANDO CITY AND ITS PEOPLE IN VIRTUAL REALITY.

You can use the app with or without VR glasses – but with them, it is more fun.

Download the App

Rubin Ritter Robert Gentz David Schneider

DEAR SHAREHOLDERS, DEAR FRIENDS,

An extraordinary year lies behind us. For the first time in Zalando's history, revenues exceeded the one billion Euro mark in a single quarter. Ending 2016 with the most successful quarter we have ever had is symbolic for a year in which we outperformed our own ambitious profit forecast, despite extensive investments focused on consumers, partners, and infrastructure.

"Reimagine fashion for the good of all." In early 2016, we defined this as Zalando's purpose and use it as a guiding principle to develop Zalando into the operating system for the fashion industry. To achieve this, we follow our platform strategy, which combines elements around consumers, partners, and infrastructure.

Investments into our customer proposition are already paying off and enabling us to make further headway. The fulfillment hub in Lahr, Germany began operations in August and the new site in Szczecin, Poland will start operations in the fall of 2017. Our Italian satellite fulfillment center in Stradella operates in full swing, the first parcels from Moissy-Cramayel near Paris have already been shipped, and plans for the newest site in Sweden are underway. These investments allow us to offer new services, such as same day delivery, express delivery, and instant returns, in more countries and to more customers.

One of the key milestones in 2016 was the launch of our integrated commerce activities as we aim to enable multiple ways of connecting fashion contributors and stakeholders to our platform. The integration of offline stores is an important element and we are making good progress, as shown by a successful pilot in close partnership with adidas, linking their Berlin flagship store to our platform.

Developing and deepening the relationship with our brands is fundamental to these efforts. We showcased our strong connections with dedicated campaigns throughout the year. Together with Beyoncé we launched her Ivy Park fashion line exclusively on Zalando and Gigi Hadid presented her co-created Tommy Hilfiger's Tommy X Gigi collection for our customers.

Our journey is being watched by millions of consumers and fashion industry players, best displayed by our inaugural and sold-out Bread&Butter fashion event in Berlin in September. We attracted more than 20,000 visitors and gained about 800 million impressions online, underlining our successful investment into brand visibility and reach.

Most of these efforts are enabled by technology, so we have further expanded our technology team's capacity and capability in 2016. More than 1,600 tech employees now work across seven Zalando tech sites.

Our efforts translated into strong financials for the full year, with revenues growing by 23% to EUR 3,639.0m. At the same time we have never been more profitable, with our adjusted EBIT reaching EUR 216.3m. 2016 has also been a year of continued recruiting efforts, increasing our staff from 9,987 to 11,998.

We are always aspiring to be more sustainable and want to share our actions and lessons learnt transparently. This year, for the first time we report in accordance with the Guidelines of the Global Reporting Initiative (GRI).

Our special thanks go to the entire team that has worked incredibly hard to carry on the Zalando success story.

Berlin, February 24, 2017

Robert Gentz David Schneider Rubin Ritter

In 2016, we continued to register positive tech growth. What is the successful formula of Zalando Tech, Robert?
zln.do/en-Robert

In 2016, we celebrated a variety of fashion highlights. Which were your favorites, David?
zln.do/en-David

Zalando outperformed financial expectations for 2016. What were your three personal highlights, Rubin?
zln.do/en-Rubin

DEAR SHAREHOLDERS,

The 2016 fiscal year was a successful year for Zalando. Despite the continued important investments for the implementation of the platform strategy, such as, the further extension of the logistics network, the launch of the integrated commerce activities as well as the further expansion of the technology team, the company ended the year with the most successful quarter ever and even outperformed its already ambitious profit forecast.

CONSULTATION AND MONITORING

The Supervisory Board duly performed its duties in accordance with statutory requirements, the Articles of Association, the Supervisory Board's Rules of Procedure as well as the German Corporate Governance Code. It received regular and detailed written and oral reports on the intended business policies, any material issues regarding financial, investment, and personnel planning as well as the progress of 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

Further information
Corporate Governance Report
p. 49

The Supervisory Board and Management Board – from left to right:
Kai-Uwe Ricke Member of the Supervisory Board, chairperson of the audit committee,
Dylan Ross Member of the Supervisory Board,
Beate Siert Member of the Supervisory Board, member of the remuneration committee,
Lorenzo Grabau Deputy chairperson of the Supervisory Board, member of the audit committee, chairperson of the remuneration committee,
Robert Gentz Co-founder and member of the Management Board,
Jørgen Madsen Lindemann Member of the Supervisory Board,
Rubin Ritter Member of the Management Board,
Lothar Lanz Chairperson of the Supervisory Board, member of the audit committee, member of the remuneration committee, chairperson of the nomination committee,
David Schneider Co-founder and member of the Management Board,
Anders Holch Povlsen Member of the Supervisory Board, member 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

Board and 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 contact 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. Furthermore, the Supervisory Board is satisfied with the continued expansion and effectiveness of the compliance program, which ensures compliance with the law and with internal guidelines.

Outside of 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 of the scheduled meetings.

MEETINGS OF THE SUPERVISORY BOARD AND ITS COMMITTEES

The plenum of the Supervisory Board held five meetings in fiscal year 2016. The audit committee held four meetings, the remuneration committee held two meetings and the nomination committee held five meetings.

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

Anders Holch Povlsen was prevented from attending one meeting of the Supervisory Board. Kai-Uwe Ricke was prevented from attending one meeting of the audit committee. The other members attended all meetings of the Supervisory Board and their respective committee meetings.

The plenum of the Supervisory Board addressed, among other items, the adoption of the financial statements for 2015, the approval of the consolidated financial statements for 2015, the analysis and discussion of the management reports on the course of business and the company's strategy, the proposals to the annual general meeting 2016, the ratification of the budget for fiscal year 2017, 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 construction of a new logistics center in Szczecin, Poland, the interior completion of the fulfillment centers in Lahr and Szczecin, and the extension of reverse factoring facilities.

The audit committee analyzed the annual financial statements 2015 and the consolidated financial statements 2015, including the combined management report for 2015, as well as the quarterly reports for the first three months, six months and nine months of 2016. The audit committee also regularly reviewed and discussed the focus of the audit, the status reports on GRC (Governance, Risk & Compliance), litigation, and the work of the internal audit, and also addressed the new requirements due to the German Audit Reform Act. The audit committee was involved in the preparation of the Supervisory Board's proposal to the annual general meeting 2016 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 roll-out of the new employee incentive program and undertook a review of the Management Board's performance.

The nomination committee dealt with the preparation of the Supervisory Board's proposal to the annual general meeting on the succession of Cristina Stenbeck and the further succession planning of the Supervisory Board.

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

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 2016 as well as the proposal of the Management Board for the appropriation of profit to the chairperson of the Supervisory Board and the chairperson of the audit committee immediately upon their completion in February 2017 and before they were finally attested. The annual financial statements for 2016 and the consolidated financial statements for 2016, 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 and the proposal for the appropriation of profit 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 and the proposal for the appropriation of profit in detail.

The Supervisory Board approved the audit results. It examined the annual financial statements and consolidated financial statements, the combined management report for ZALANDO SE and the group as well as the proposal of the Management Board for the appropriation of profit. The findings of the preliminary audit conducted by the audit committee and the Supervisory 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 2016 and approved the consolidated financial statements for 2016. The Supervisory Board concurred with the proposal of the Management Board for the appropriation of profit (to be carried forward to new account), in consideration of particularly the company's annual result, liquidity, and financial planning.

Further information Consolidated Financial Statements p. 122

CORPORATE GOVERNANCE

The annual declaration of conformity was issued by the Management Board and the Supervisory Board in November 2016 and updated in December 2016. The complete text of the declaration can be found in Section 01.5.1 on page 49. The declarations are made permanently available under the section on Corporate Governance on the company's website.

zln.do/en-conformity

More information on corporate governance can be found in the corporate governance report and associated declaration on page 49. With regard to the remuneration structure for the members of the Management Board for fiscal year 2016 and to avoid repetition, please see the comments in the remuneration report on page 61.

Further information Corporate Governance Report p. 49

PERSONNEL MATTERS

Cristina Stenbeck resigned from her office as member and chairperson of the Supervisory Board with the conclusion of the annual general meeting on May 31, 2016. The Supervisory Board would like to thank Cristina Stenbeck for her valuable contributions to the work of the Supervisory Board and the trust-based cooperation. It was a pleasure and honor to be member of the Supervisory Board under her chairmanship.

The annual general meeting 2016 elected Jørgen Madsen Lindemann as a new member of the Supervisory Board until the end of the annual general meeting that resolves on the formal approval of the members' acts for the fiscal year 2016.

At the meeting of the Supervisory Board following the annual general meeting, Lothar Lanz was elected new chairperson of the Supervisory Board and resigned from his position as chairperson of the audit committee. In addition, Lothar Lanz was elected member of the remuneration committee. Kai-Uwe Ricke was elected new chairperson of the audit committee. Lorenzo Grabau was nominated to the nomination committee and elected new chairperson of the nomination committee. In January 2017, Lorenzo Grabau resigned from his position in the nomination committee and was replaced by Lothar Lanz as new member and chairperson of the nomination committee. All other committee memberships and chairs remain unchanged.

The Supervisory Board would like to thank the Management Board and all employees of the company for their high level of commitment and the excellent achievements in the fiscal year 2016.

Berlin, February 24, 2017

Lothar Lanz

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

CURRENT AND PAST SEATS → 01

Name of Supervisory Board Member	Profession	Mandates pursuant to Sec. 125 (1) Sentence 5 AktG
Lorenzo Grabau	Member of Boards of Directors, including Millicom International Cellular S.A.	Qliro Group AB, Sweden (Member of the Board of Directors) Millicom International Cellular S.A., Luxembourg (Member of the Board of Directors) Tele2 AB, Sweden (Member of the Board of Directors) Global Fashion Holding S.A., Luxembourg (Member of the Board of Directors, Chairman, until December 2016) Rocket Internet SE, Berlin (Member of the Supervisory Board, until June 2016) Lazada Group S.A., Luxembourg (Member of the Board of Directors, Chairman, until April 2016)

→ 02

Name of Supervisory Board Member	Profession	Mandates pursuant to Sec. 125 (1) Sentence 5 AktG
Lothar Lanz	Member of Supervisory Boards including Axel Springer SE, Kinnevik AB and TAG Immobilien AG	Axel Springer SE (Member of the Supervisory Board) Bauwert AG (Member of the Supervisory Board, Chairperson) Dogan TV Holding A.S. (Member of the Board of Directors) Home24 AG (Member of the Supervisory Board, Chairperson) Kinnevik AB (Member of the Board of Directors) TAG Immobilien AG (Member of the Supervisory Board, Deputy Chairperson)
Jørgen Madsen Lindemann*	Chief Executive Officer of Modern Times Group MTG AB	Turtle Entertainment GmbH, Cologne, Germany (Member of the Advisory Board)
Anders Holch Povlsen**	Chief Executive Officer of the Bestseller group	Intervare A / S 25169158, Denmark (Member of the Board of Directors, Chairperson) Nemlig.com A / S, Denmark (Member of the Board of Directors, Chairperson) J.Lindeberg AB 556533-7085, Sweden (Member of the Board of Directors) J.Lindeberg Holding AB, Sweden (Member of the Board of Directors) J.Lindeberg IP HK Limited, Hong Kong (Member of the Board of Directors) J.Lindeberg Holding (Singapore) Pte. Ltd., Singapore (Member of the Board of Directors) JL Schweiz AG, Switzerland (Member of the Board of Directors, Chairperson)
Kai-Uwe Ricke	Chairperson of the Board of Directors of Delta Partners	United Internet AG, Montabaur (Member of the Supervisory Board) *Mandates in affiliated companies:* United Internet Ventures AG, Montabaur (Member of the Supervisory Board) 1&1 Internet SE, Montabaur (Member of the Supervisory Board) 1&1 Telecommunication SE, Montabaur (Member of the Supervisory Board)Chairperson) 1&1 Mail & Media Applications SE, Montabaur (Member of the Supervisory Board, Deputy Chairperson) EUN Holdings LLP, Delaware (Member of the Board of Directors, since October 2016) euNetworks Group Ltd, Singapore (Member of the Board of Directors, until October 2016) Delta Partners, Dubai (Member of the Board of Directors, Chairperson) SUSI Partners AG, Switzerland (Member of the Board of Directors, Chairperson) Virgin Mobile CEE, Netherlands (Member of the Board of Directors)

→ 03

Name of Supervisory Board Member	Profession	Mandates pursuant to Sec. 125 (1) Sentence 5 AktG
Dylan Ross	Employee of ZALANDO SE (Category Management)	–
Alexander Samwer	Independent internet entrepreneur	Home24 AG, Germany (Member of the Supervisory Board)
Konrad Schäfers	Employee of ZALANDO SE (Commercial App)	–
Beate Siert	Employee of ZALANDO SE (Sourcing & Recruiting)	–
Cristina Stenbeck (Member and Chairperson until May 2016)	Member of the Board of Directors of Kinnevik AB	Kinnevik AB, Sweden (Member of the Board of Directors; Chairperson until May 2016) Millicom International Cellular, Luxembourg (Member of the Board of Directors; Chairperson until May 2016) Verdere SARL, Luxembourg (Member of the Board of Directors, Chairperson)

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

CURRENT AND PAST SEATS OF THE MANAGEMENT BOARD

→ 04

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

01.3 CORPORATE STRATEGY

01.3.1 ZALANDO'S PURPOSE IS TO REIMAGINE FASHION FOR THE GOOD OF ALL

Why reimagine fashion? With EUR 421bn in annual retail spend[1] and attractive gross profit margins, the European fashion industry[2] represents one of the largest and most attractive global consumer retail markets. In the last few years, we have seen the industry start to embrace the digital age as growth in online fashion sales significantly outperformed total fashion retail growth. While total fashion retail sales remained largely stable between 2011 and 2016, online sales grew from EUR 27bn in 2011 to EUR 51bn in 2016 and because it enables "always-on" consumer behaviors, it has become possible to bring together the fashion ecosystem: consumers, brands, retailers, manufacturers, stylists, content creators, logistics and service providers, and other future stakeholders. These connections will create better user experiences and ultimately result in new, more interesting, and more efficient ways to consume, produce fashion, or do business.

01.3.2 A RIPE OPPORTUNITY FOR US

With roots as a fashion retailer, Zalando has become Europe's leading online fashion destination. Our customer reach across 15 European countries – with around two billion visits per year[3] – grants our consumers access to over 1,500 brands, for many of which we are their largest retail account. As a trusted partner, our online fashion competence is unmatched.

Further information
Background to the Group
p. 75

We rely on the following strengths to leverage our leading position in the European online fashion landscape.

OUR FOCUS ON THE FASHION CATEGORY AND THE EUROPEAN MARKET
Fashion is a complex vertical benefitting from the utmost focus of one powerful organization. Our focus on the needs of the fashion ecosystem enables us to design unique and compelling fashion experiences for consumers and to find industry-specific solutions for brand partners.

While leveraging our central core strengths – technology backbone, fulfillment network and supplier relations – we believe in building highly localized solutions for each of our 15 European markets in order to make Europe accessible for fashion brands and retailers. Our thorough understanding of local specificities will continue to be a core differentiator.

1) Source: Euromonitor International, 2015
2) Excluding Russia
3) Actual data for 2016, excluding off-Zalando properties (e.g. Zalon, Fleek, Movmnt, Zipcart)

OUR CLEAR VALUE PROPOSITION FOR CONSUMERS

Zalando is a well-loved fashion brand: A fashion companion that builds relationships with consumers beyond the transaction in new, fun, and inspiring ways:

— Offering an up-to-date, unique, and comprehensive assortment of in-season fashion merchandise
— Building the most fashion-competent destination via discovery and inspiration, catalog curation, as well as content and selection freshness
— Delivering an unmatched level of personalization
— Offering a smooth better-than-offline experience: The most convenient way to discover, checkout, pay, receive, and return fashion items

OUR VALUE PROPOSITION FOR FASHION BRANDS

Zalando is the industry's preferred technology partner. We support brands' transition to the digital age by:

— Providing an infrastructure that introduces business efficiencies for fashion brands and retailers – e.g. through more accurate sales forecasts, targeted advertising, and smart fulfillment services
— Providing a unique environment for suppliers to present themselves as a fashion brand through which they preserve their brand equity
— Offering unprecedented customer reach amounting to around two billion visits per year across 15 European markets

01.3.3 ZALANDO'S PLATFORM VISION

We believe we can best attain superior consumer experience standards – particularly in inspiration and selection – through a platform business model. We further envision the Zalando platform as an operating system for the fashion world, with multiple ways of integrating all sorts of fashion contributors and stakeholders, catering to their specific needs. It offers digital and infrastructure services such as analytics, advertising, and fulfillment.

Further information in the Zalando City Guide zln.do/en-city-guide

Wholesale has been the foundation of our success to date and wholesale integration offers many advantages for the consumer experience – in particular, physically owning the merchandise ensures availability for crucial parts of the assortment. We will further innovate on more forms of merchandise integration, both within wholesale and through our partner program, thus complementing the classic wholesale integration.

We believe our partner program will improve selection breadth and depth, a key element of our customer proposition:

— Overall increased availability of styles and sizes
— Access to the most sought-after brands
— Integration of credible niche/specialty players with unique content and assortment
— Long tail and local inventory with volumes catering for the needs of specific fashion lovers

Beside brands in the partner program, our platform setup attracts more participants such as manufacturers, stylists, content creators, logistics, and service providers.

Each will bring consumer benefits such as enhanced inspiration capabilities and convenience:

- Scalable personalization and more inspiring content, not limited to Zalando's stock inventory
- Additional options to access local inventory and fast delivery solutions

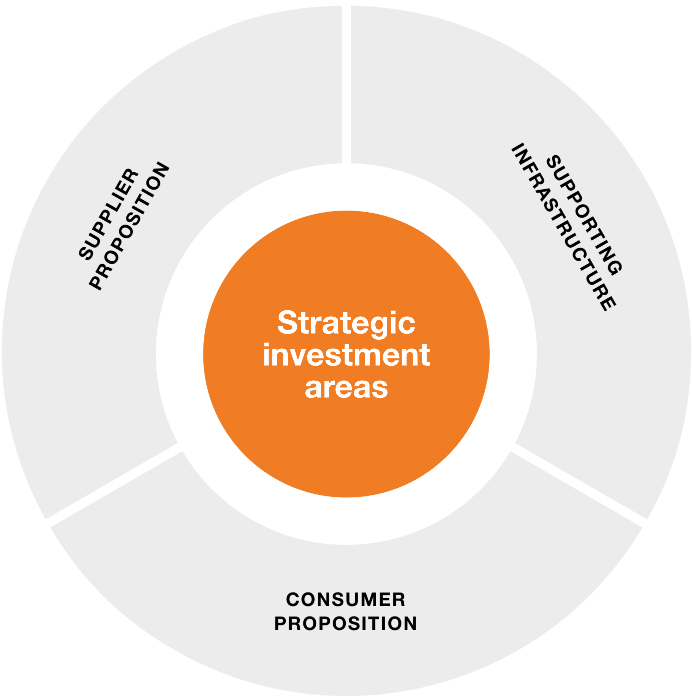
A platform approach will therefore help us deliver the following attributes valued by consumers, to scale and with the right cost structure – incremental selection and inspirational content, incremental delivery methods, incremental services and access to fashion expertise. We expect these attributes to trigger self-reinforcing growth momentum and further unlock Zalando's potential. An improved selection of merchandise and availability feeds the growth of our consumer reach – and vice versa. For brand partners, access to this unprecedented consumer reach presents a huge commercial opportunity that they can benefit from as they leverage our platform infrastructure.

Further information
Background to the Group
p. 75

01.3.4 OUR STRATEGIC INVESTMENT AREAS

Zalando strategy

OUR STRATEGIC INVESTMENT AREAS → 01



INVESTMENT IN OUR CONSUMER PROPOSITION

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

ASSORTMENT

We invest in providing consumers with the largest in-season fashion selection and optimizing availability. We thereby succeed in advising consumers as their trusted navigator in the overwhelming, fast-changing world of fashion with inspiration and personalization.

Experience Zalando
zln.do/en-fashion

CONVENIENCE

We invest in enabling the easiest and most seamless transaction process by investing in our platform's delivery, payment, customer care, and return proposition.

BRAND

As a well-loved brand, we invest in building our brand equity to (a) facilitate consumer trust in our fashion competence and in the convenience and reliability of Zalando transactions and (b) build fashion credibility to brand partners as a prerequisite for brands distributing their merchandise on our platform.

MOBILE

As a mobile-first company, we invest in continued mobile site and app optimization to provide increasingly compelling content and user experiences that uniquely serve the mobile shopper. Today, mobile already represents 65.6% of our traffic and more than 50% of all orders.

INVESTMENT IN OUR SUPPLIER PROPOSITION

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

WHOLESALE SOLUTIONS

We invest in increasing wholesale supply chain efficiency through a more efficient data exchange, automated buying, more partner empowerment, and better overstock solutions.

Experience Zalando
zln.do/en-partner-services

PARTNER PROGRAM

We invest in offering brands an alternative solution through which they own inventory and retain more control on pricing and assortment, with a long-term goal of reaching more than 20% enabled transactions.

DIGITAL SERVICES

We invest in facilitating interactions between suppliers and consumers through stock integration, demand generation, and content management.

FULFILLMENT SERVICES

We invest in building a fulfillment infrastructure-as-a-service and localized customer care solutions to simplify e-commerce operations for suppliers – both on and off our Zalando destinations.

SUPPORTING INFRASTRUCTURE INVESTMENTS

Our supporting infrastructure investments serve as the strong foundation on which we offer compelling consumer and supplier propositions.

TECHNOLOGY

Proprietary technology solutions form the backbone of Zalando and drive all workflows from purchasing to ordering processes and fulfillment. Today, Zalando Tech employs over 1,600 engineers across 7 technology hubs, with Berlin serving as our technology headquarters, Dortmund serving as our fashion platform hub, Dublin serving as our data insights hub, Hamburg serving as our advertising technology hub, and Erfurt and Mönchengladbach serving as our high-tech logistics hubs. In 2016, to complement these existing investments, we launched our own research lab, Zalando Research, to bring internal research scientists together to uncover advancements in data science, machine learning, and artificial intelligence and to explore their applications to fashion commerce.

OPERATIONS INFRASTRUCTURE

Our established infrastructure and accumulated expertise in warehousing, delivery, and customer care process and content production will remain fundamental to our wholesale business. In addition, opening up our operations infrastructure to brand partners through our fulfillment infrastructure-as-a-service offer will allow them to maintain or improve customer experience standards as they join our partner program – while retaining inventory control.

Further information in the Zalando City Guide
zln.do/en-infrastructure

In the coming years, we will continue to be focused on growing our market share, leveraging the continued growth dynamics of linking consumer reach and connected inventory. For consumers, Zalando is, more than ever, the top-of-mind destination to seek fashion inspiration, advice, and to discover fashion products. Thanks to Zalando, consumers never fear missing out on a trend or a hot product, fashion is highly personalized to their tastes, and products get to them as fast and smoothly as possible.

Given the current speed of innovation in fashion technology, there is no doubt that our vision will evolve in the coming years. However, we are convinced that trends will remain a vector of self-expression: Inspiration, discoverability, and personalization are long-term needs. Based on those constants, we are comfortable in the choices we are making.

01.4 CORPORATE RESPONSIBILITY

01.4.1 do.THINK AHEAD

— At Zalando, we see the opportunity to reimagine the fashion industry and we want to engage our employees, customers, and partners in finding more sustainable ways to produce fashion, consume, and do business.
— We are convinced that our transformation towards being a more sustainable business contributes to the future success of Zalando.
— With this chapter, we want to present our corporate responsibility strategy and the current status of the 16 material topics at its foundation.

We built our corporate strategy on our purpose of "reimagining fashion for the good of all". This purpose is also one of the main drivers of our corporate responsibility (CR) strategy. In the face of global developments like resource scarcity, climate change, and increasing inequality, we see a pressing urgency to reimagine our industry in a way that benefits all stakeholders involved in the fashion ecosystem. We believe that we can use our expertise in fashion, technology, and operations to make a substantial contribution to a more transparent and sustainable fashion industry.

On our journey from start-up to grown-up, we have been criticized a lot, at times rightly so. This has made us reflect on the role we want to play in society. We see the reimagination of the fashion industry as an opportunity and we want to engage our employees, customers, and partners to find better ways to produce fashion, consume, and do business. If you want to team up with us and advance our industry towards more sustainability or share your experiences, we invite you to get in touch with us.

zln.do/en-CR-Contact

ABOUT THIS CHAPTER

In this chapter, we want to give you a short overview on where we stand with our endeavors, where we face challenges, and where we want to go. We want to continuously grow our aspirations in becoming more sustainable and report on our actions transparently. Therefore, we prepared this report about the fiscal year 2016 in accordance with the "Core" option of the latest G4 Guidelines of the Global Reporting Initiative (GRI)[4]. The GRI index can be found on page 195. References next to the text indicate the GRI information given in the corresponding paragraph. The report content has been mainly defined by the results of the materiality analysis, our strategic approach to corporate responsibility, and upcoming legal requirements on non-financial reporting.

G4-28
G4-32

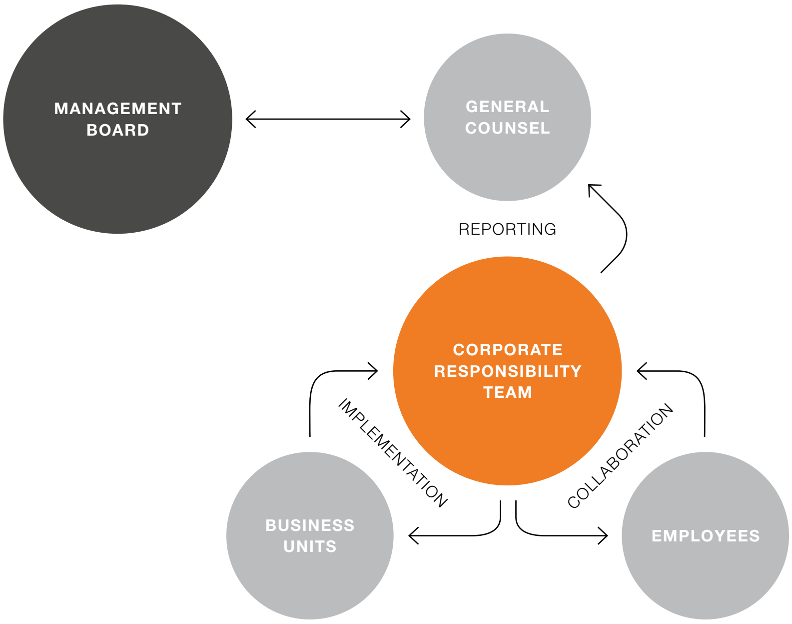
Further information
GRI Index
p. 195

4) https://www.globalreporting.org/Pages/default.aspx

SUSTAINABILITY MANAGEMENT

Strategic responsibility for CR within Zalando lies with the Management Board, supported by the General Counsel. The CR team reports to the General Counsel and closely collaborates with decentralized counterparts throughout Zalando to implement sustainability-related initiatives. G4-34

HOW WE ORGANIZE CR → 02



The CR team pursues and measures the implementation of the sustainability strategy and identifies any need for adaptation and improvement, both across the entire company and within individual business units. At the same time, all employees can proactively suggest and implement actions that improve the sustainability performance of Zalando. This decentralized structure empowers our employees to incorporate CR into their daily work.

CR STRATEGY

As a start-up, our most important target was to prove our business case. Having achieved this, we started working strategically on turning our business into a more sustainable one. We are sure that our transformation towards a more sustainable business will contribute to the future success of Zalando. As a young company, we want to get the basics right and are excited about redefining our role beyond what is expected of us. To achieve this, we invest 1% of our EBIT in social engagement in communities around us and in innovative approaches that help transform our industry.

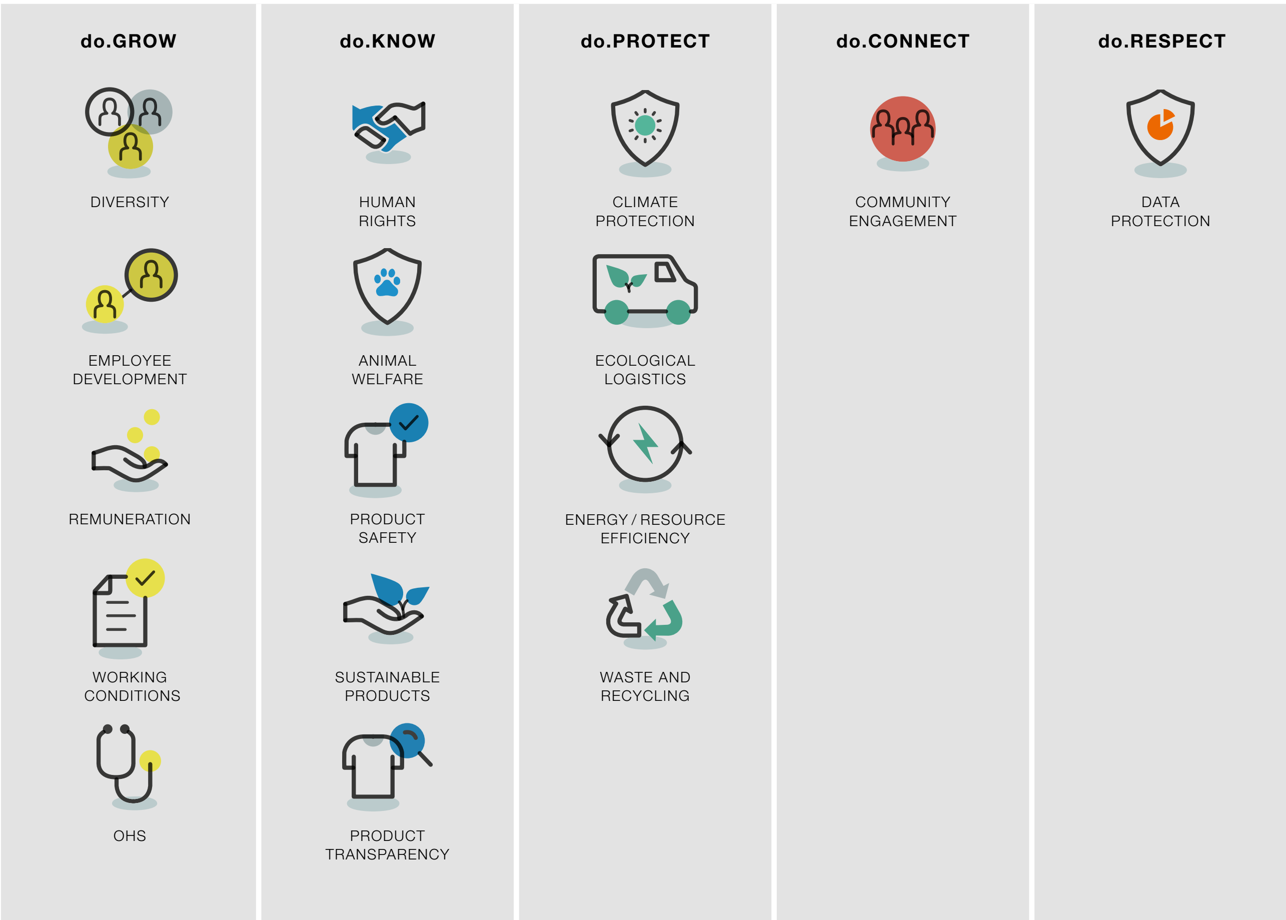
MATERIALITY ANALYSIS

Where should we start if we want to reimagine fashion for the good of all and build a more sustainable business? Our first materiality analysis performed in 2014 and 2015 was aimed at identifying and prioritizing the areas in which we potentially have the biggest positive and negative impact. At the same time, we wanted to find opportunities and challenges that could influence our business model and current strategy.

The process included a media analysis and a survey among 5,000 customers and 1,200 employees. G4-18
As a customer-centric company, we were eager to hear what CR activities our customers expect us to work and report on. In addition, our employees could choose which topics they are passionate about and where they want their employer to become active. Furthermore, we conducted internal workshops across all hierarchies and functions that aimed at finding sustainability topics that are or will be crucial for our business model.

The input received from these key stakeholder groups became the foundation of our CR strategy, G4-19 G4-27
called the do.STRATEGY. It includes a list of 16 material topics in five different focus areas: Employees (do.GROW), supply chain and products (do.KNOW), environment (do.PROTECT), society (do.CONNECT), and ethics and compliance (do.RESPECT).

WHAT WE FOCUS ON → 03



THE do.STRATEGY

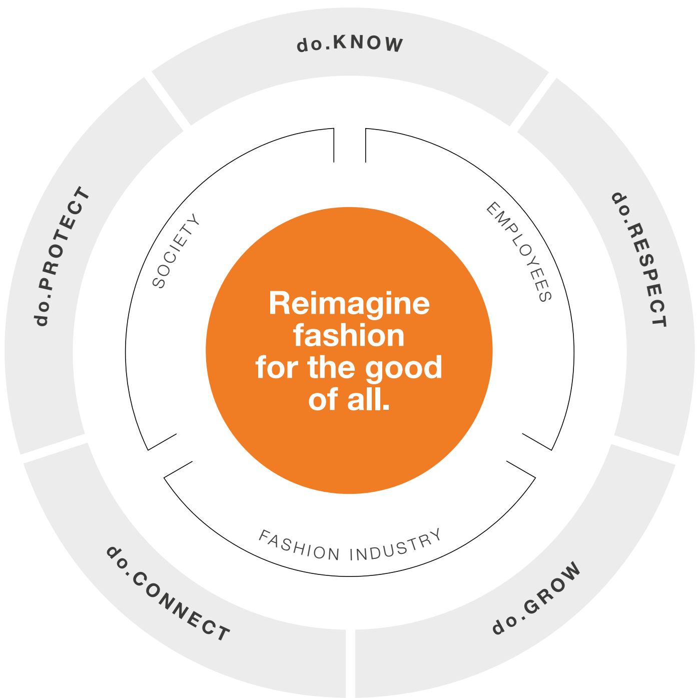
The name of the strategy implies our philosophy: We have an action bias. The do. is in our DNA. And this is how we approach sustainability too. We want to advance our corporate responsibility efforts by doing more and talking less. The starting point of our strategy is the company's purpose. We see it as a promise to our customers and partners, but also as a commitment to all other stakeholders we are connected with. Striving towards this purpose, we want to leverage the commitment of our employees by empowering them to do their bit for a better fashion industry and a better society in general. The five focus areas defined by the materiality analysis are the foundation of the strategy.

Experience Zalando
zln.do/en-do

In the first phase, we wanted to get the basics right and focused on the homework we still had to do. This led to a CR roadmap consisting of more than 200 opportunities and challenges across all 16 material topics with different aspiration levels. We are proud of what we have achieved so far and at the same time are excited and humble about the challenges ahead.

OUR CR STRATEGY → 04

Zalando strategy



We are not yet done with our homework and will continue to redefine and raise the standards for our own sustainability performance. However, we think that we are ready for the next step. Over the coming years, we want to extend and intensify our strategic collaboration with those that bring complementary talents and assets to the table to work on our goal of making fashion e-commerce more sustainable.

The challenges that our industry is facing are diverse and complex. With our business model and platform strategy, we see countless opportunities for us to change the industry. We want to leverage the potential of our platform and our core capabilities in fashion, technology, and operations.

STAKEHOLDER ENGAGEMENT

Fashion and e-commerce are by nature fast-changing environments and this is where we feel at home. One of our major success factors is that we carefully observe what is happening around us. This includes not only building close ties with our customers, but also nurturing strong relationships with key stakeholders.

Our approach to stakeholder engagement is as flexible as our business. Building a start-up requires fast iterations with those stakeholders that are most relevant at the corresponding stage. As this approach is still part of our culture and has proven successful, we stay clear of building formal processes, structures or committees for stakeholder engagement.

While we will push some topics more proactively, we are in general always open for discussion with everyone who wants to engage with us or learn more about a specific approach at Zalando. One example for this is that we often meet journalists or politicians at our fulfillment centers if they desire information on our plans for the specific location or for the entire company.

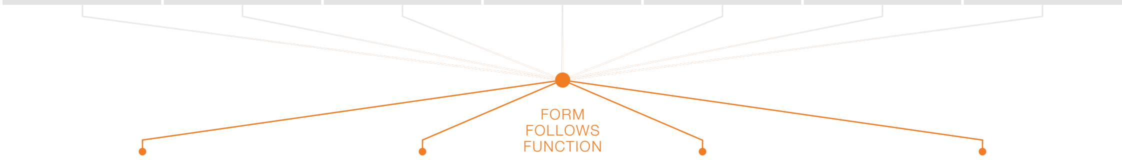
We engage with stakeholders according to their expertise, scale, influence, and relevance for Zalando in order to have the most impactful exchange at a certain stage. The intensity of interaction varies according to the goal of the engagement and can be roughly divided into four categories:

G4-15
G4-16
G4-24
G4-25
G4-26

FLEXIBLE STAKEHOLDER ENGAGEMENT

→ 05

STAKEHOLDER GROUPS							
	SOCIETY	CUSTOMERS	EMPLOYEES	INDUSTRY	POLITICS	SHAREHOLDERS	SUPPLIERS



ENGAGEMENT CATEGORIES	INFORM	ASK	EXCHANGE	COLLABORATE
EXAMPLES	The first level of engagement in our view is one-way communication. We constantly monitor information published by or about relevant stakeholders to collect further information for our work. Of course, one-way communication can also be triggered by us publishing information.	Asking our stakeholders about relevant sustainability topics for Zalando was one of the first steps when developing our CR strategy. In our materiality analysis, we asked 5,000 customers and 1,200 employees which are the most important topics for Zalando to work on in order to become a more sustainable company. The result – 16 material topics – now represent the baseline of our do.STRATEGY.	To exchange ideas and experiences with stakeholders, we actively participate in or support the following initiatives: – Local e-commerce initiatives in our operating countries – German Institute for Standardization (member: zLabels) – Cooperation at Deutsches Schuhinstitut (member: zLabels) – Tolerantes Brandenburg (member: Brieselang) – The Corporate Charter of Diversity for Germany (member: Erfurt) – German Sustainable Building Council	An example of collaboration was the Hello Festival which we organized together with almost 30 partners from different sectors such as Ashoka, TEDxBerlin and Betterplace.org. If you want to know more about this collaboration, please see page 38 in the Zalando City Guide. In the future, we want to increase our collaboration efforts to make fashion e-commerce a more sustainable industry.

OUTLOOK 2017

Zalando strategy

- In 2017, we will build on our experience and further develop sub-strategies and targets to take our CR performance to the next level.
- In order to reimagine fashion for the good of all we want to find bold and innovative partners this year.
- We believe in the wisdom of the crowd. Therefore we invite you to give us feedback regarding our approach or to even team up with us and advance our industry towards more sustainability.

01.4.2 do.GROW

do.GROW

- Eight years ago, Robert and David started realizing their bold vision to create a European success story in fashion e-commerce and we now take this vision to the next level with almost 12,000 people from 119 countries.
- Our platform strategy can only be successful if we trust and empower our employees.
- To create a flexible and innovative work environment, we ignite our inclusive culture, encourage collaboration, and enable employees to shape our success by acting like entrepreneurs.

ZALANDO IS GROWING

G4-9

Zalando’s success story would have never been possible without the passionate and creative people who work here. We are proud to preserve the open and dynamic start-up culture even though the company has become a huge and important employer with almost 12,000 employees in 2016 (+20% from 2015). In light of the plans set for 2017, a further increase in headcount can be expected. To consistently follow our platform strategy, we significantly reinforced our workforce in Technology.

EMPLOYEES BY EMPLOYMENT CONTRACT AND EMPLOYMENT TYPE → 05

G4-10

	2016	2015	2014
Total	**11,998**	**9,987**	**7,588**
Part-time	7%	6%	5%
Full-time	93%	94%	95%
Temporary	33%	44%	52%
Permanent	67%	56%	48%

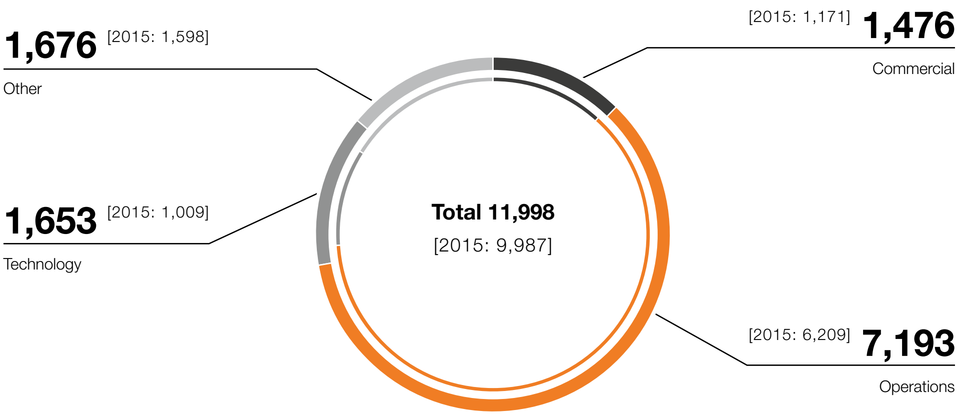
EMPLOYEES BY GENDER AND REGION* → 06

G4-10

	Berlin	Brieselang	Erfurt	Mönchen-gladbach	Lahr	Nordics / Ireland**	Other
Total	**5,413**	**1,248**	**2,608**	**2,048**	**186**	**146**	**348**
Female	54%	42%	44%	37%	43%	16%	37%
Male	46%	58%	56%	63%	57%	84%	63%

*) Without SAS
**) Includes Copenhagen, Helsinki, Dublin, Stockholm

EMPLOYEES BY CLASSIFICATION → 06



In 2016, 4,621 new employees were hired. 60 of them are re-hires which means that they have worked for Zalando before. Of the new hires, 44% were women and 56% were men. The turnover rate was 25% (2015: 32%). Here again the split between women and men is 44% to 56%. 70% of the new hires were below our average age of 36 years. The average age is even lower in the corporate functions and tech hubs in Berlin, Dortmund, Helsinki and Dublin (32 years in 2016).

G4-LA1

OUR CULTURE – OPEN AND HONEST

Motivated employees are a key driver for our future success. We want to provide attractive opportunities for our current employees and appeal to external applicants. Our fast-moving company and the corresponding work environment can be challenging for some employees. This increases our motivation to invest in our culture to create a work atmosphere in which all employees enjoy their job, think and act like entrepreneurs, and use their ideas and motivation to contribute to the shared goals and purpose of the company. Appreciating all employees and their diverse and creative ideas is at the core of our corporate culture.

We know that keeping up with these high aspirations at all times can be challenging. To track our current performance in this regard, we use our online pulse check called zBeat. The results are summarized and published on our intranet so that leaders and teams can discuss their business unit's results. In addition, in order to enable everyone to share opinions and level of satisfaction we conduct an offline survey. The average participation rate is around the 50% level.

An important prerequisite to achieve our goal is an open and honest atmosphere in which everyone feels encouraged to speak up independently of company tenure, age or position. Therefore, we invite employees to express ideas and provide constructive feedback. One means to enable an open and productive exchange is our interactive intranet called zLive, which serves as a real-time source of knowledge for all employees, and at the same time, as a platform for employees to ask questions, discuss, and share content. Moreover, our Management Board presents current projects and reflects on performance in biweekly zTalks that are broadcast and can be seen in all our locations or later accessed online in our intranet. The same format is used for teams to share their latest projects or ideas with all Zalandos. No matter who is presenting, employees are encouraged to ask all questions and express their opinion. In our opinion, such a speak-up culture is necessary for a successful company.

INCLUSION AND DIVERSITY

One crucial aspect of Zalando's culture is the diversity among our employees and the level of inclusion we have established. In our opinion, building an inclusive culture is the most effective way to increase and benefit from diversity. Simultaneously, diversity of thought is necessary to achieve excellence in business innovation.

DMA[5] Diversity and Equal Opportunity

TOWARDS AN INCLUSIVE CULTURE

At Zalando, we are dedicated to igniting our inclusive culture. We are focusing our efforts on building Inclusion & Diversity (I&D) champions, raising awareness, and educating our employees on the importance of this work to our business results and the role we expect them to play. We are developing resources to enable teams to strengthen their own inclusive culture and thus better leverage their diversity. With the resources provided, teams can strengthen and develop their own I&D culture.

We are also embedding I&D into our current People processes, such as recruiting, employer branding and people development. Tracking our progress in I&D is another focus area. We utilize our employee pulse check, zBeat, to track our progress on creating an inclusive culture throughout the year. Recent results[6] of the online survey show that:

- 79% of Zalandos feel they can be themselves at work and feel accepted.
- 85% feel they can share their ideas even if team members have different perspectives.
- 68% believe when they voice their opinion, it is considered.
- 74% agree that diversity of thought is critical to our success.

These are strong positions to build from, but we know we can do better.

5) Disclosures on Management Approach
6) In the survey employees can rate statements from 1 (disagree completely) to 5 (agree completely). The results mentioned above combine the share of people who replied 4 or 5.

VALUING DIVERSITY

We value all dimensions of diversity, but have decided to focus on two dimensions – gender and nationality – especially within our leadership group.

In general, we are proud of our achievements in including diversity of nationalities in recruiting. Our employees come from 119 countries and around 35% of our employees have an international passport. Here we can see every day what amazing and surprising things can happen when individuals from all over the world with different cultural backgrounds are given the freedom to create something entirely new. To support this welcoming culture, we provide support e.g. with registration processes, translation of important documents (e.g. health and safety training), and in mentoring programs. Further, we conduct ongoing training to increase awareness of the importance of I&D to our business success.

In our fulfillment centers, multiculturalism is part of the everyday routine. Each fulfillment center engages in I&D topics e.g. by providing training on leveraging multiculturalism and by supporting activities in their communities. Erfurt, for example, signed the "Charta der Vielfalt" "Diversity Charter", Brieselang is a member of "Tolerantes Brandenburg" and Mönchengladbach organizes special hiring days for refugees. G4-15 G4-16

However, the diversity of our multi-national workforce is currently not sufficiently reflected in our leadership team. This is all the more reason to focus our efforts on increasing this dimension of diversity among leadership positions due to its significant impact on the company and the people who work here.

That same pattern can be found regarding gender diversity. 47% of our employees are female. Yet, the percentage of female leaders is 33%. Here again, we are dedicated to focusing our efforts on increasing this diversity dimension among leadership positions. Therefore, we set ourselves the target of increasing female representation to 15% in the first level below the Management Board and to 30% in the second level below the management board by June 30, 2017.

EMPLOYEES BY GENDER AND INTERNATIONAL BACKGROUND → 07

G4-LA12

	2016	2015	2014
Management Board (MB)			
Female	0%	0%	0%
Male	100%	100%	100%
International	0%	0%	0%
1st level below MB			
Female	11%	0%	0%
Male	89%	100%	100%
International	11%	0%	0%
2nd level below MB			
Female	21%	23%	26%
Male	79%	77%	74%
International	29%	15%	17%
Management			
Female	33%	34%	32%
Male	67%	66%	68%
International	29%	19%	13%
Total workforce			
Female	47%	47%	48%
Male	53%	53%	52%
International	35%	30%	21%

Next to our inclusive culture, leadership development will be an important measure to increase diversity within higher positions in the company over the next years. The People Development team is working on programs to promote and enable inclusive leadership and overcome unconscious bias when developing and evaluating the performance of team members. Even though this organic increase of diversity in leadership positions will take more time than targeted recruiting of external managers, we think it is the most effective path for us.

FAMILY ORIENTATION

One of the diversity dimensions that we want to emphasize more strongly is parental status. Due to our employees' average age, family friendliness is currently a topic that is becoming ever more important. To be an attractive employer for parents, we offer, high flexibility regarding working hours and location and childcare options. In logistics, employees can sign up for a special mum-dad-shift.

An increasing number of our employees are taking parental leave and we see a continuous need for measures that support parents. Therefore, we will further extend our offerings in this regard.

EMPLOYEES ON PARENTAL LEAVE → 08

G4-LA3

	2016	2015	2014
Total	**363**	**247**	**161**
Women	58%	58%	63%
Men	42%	42%	37%

JUST IN CASE

Our Code of Ethics and other policies supporting the implementation of the German General Act on Equal Treatment help establish the protection needed for employees to be treated with fairness and respect. While we strive for a strong and open culture that would preclude the need for such policies, we have implemented mechanisms to protect our employees. If Zalandos feel discriminated against for any reason, they can seek help at:

zln.do/en-ethics

— our Compliance department (Ask & Tell process), which can also be done anonymously
— their contact person in P & O, our HR department
— social workers in the fulfillment centers
— work councils or informal employee participation groups like the ZEP (Zalando Employee Participation)

DMA
– Diversity and Equal Opportunity
– Non-discrimination
G4-HR3

All cases are taken seriously and handled professionally.

PEOPLE DEVELOPMENT

While Zalando is growing, we want our employees to grow personally and professionally with us. Our philosophy is that development should not be limited to current positions within Zalando. We want to prepare our employees for the jobs of the future.

DMA Training and Education

LEARNING COMMUNITIES PROVIDE MODERN AND TARGETED DEVELOPMENT OPPORTUNITIES

Our unique Zalando formula has a secret recipe – a myriad of talents with great passion, entrepreneurial spirit and expertise in their respective function. To help these talents to grow, we invest in an unconventional development approach: Experts in distinct learning communities design concepts targeted at the knowledge, learning, and working environment suitable for their corresponding functions. For example, our tech academy offers specific training options for coders either to intensify their expertise in one coding language or broaden their knowledge beyond their current field of expertise. Having totally different needs, our learning community in operations focuses on designing attractive development paths for employees in our fulfillment centers. Each of these communities is encouraged to implement methods that go beyond traditional classroom training and include everyday learning experience through different technologies and enablers. Employees are empowered to choose from the variety of options to design their own development paths. This approach helps us to attract and develop those talents that want to shape our agile and fast growing business with us.

The learning communities receive support from the central people development function. This team designs the overall strategy and company-wide programs like the establishment of impact tracks that go beyond traditional general management career paths and empower our employees to provide greater business impact through business development and expertise.

G4-LA10

As part of our lifelong learning philosophy at Zalando, we want to prepare our employees for an increasingly digital future. Therefore, we started a pilot called "Coding as a foreign language". The goal was to give non-tech Zalandos insights into the world of software programming as well as a better understanding on how our Tech teams work. The response of our employees was overwhelming and we have already planned a second iteration for 2017.

STRENGTHEN OUR FEEDBACK CULTURE

G4-LA11

Feedback and a speak-up culture have been very important building blocks for Zalando from the beginning on. Building on these, we used the year 2016 to further strengthen this culture in preparation for the roll-out of a multi-sourced feedback process. We think that reducing feedback to the classical leader-employee conversations does not fit our culture as well as our fast and agile business environment. In order to be more valuable, feedback should also come from the people an employee interacts with in daily business. We believe that feedback and self-reflection will help our employees grow and shape their individual development path within Zalando and beyond.

REMUNERATION

DMA Equal Remuneration for Women and Men

Fair remuneration is an important part of good working conditions. Therefore, we constantly evaluate and adapt our remuneration package to be attractive, motivating and in line with our equal pay principle.

HOW WE REWARD

Frankly, it is not our target to pay the highest cash salary in the market, but to attract and motivate employees with the combination of autonomy and fun at work, a fair compensation package and the culture of an inclusive and agile international company that revolutionizes the fashion industry. The compensation of each role at Zalando is benchmarked against the market and adjusted according to individual skills, experiences and competencies of the employees.

G4-LA2

Our comprehensive rewards offer is composed of base compensation, top performance awards, and attractive benefits. For all leaders, base compensation consists of two elements: Monthly cash salaries as well as an annual equity grant that entitles beneficiaries to receive long-term oriented Zalando stock options. Additionally, we offer a wide range of benefits, including employee discounts in our shop, our employee share plans, free fruit and drinks, contributions to public transport or health programs, as well as team sports and support for families, e.g. for daycare. Benefits are granted to all permanent employees and local offers like health programs can be used by everyone working in the respective location.

The base compensation of our employees is reviewed annually after the completion of the performance review and adapted according to market development and individual performance. We ensure objectivity and internal fairness through clear criteria and defined processes for compensation decisions.

EQUAL TREATMENT PRINCIPLE IN OUR LOGISTICS

Temporary workers contribute daily to our success, especially in our logistics. We consider their fair treatment as an important part of our good working conditions. We have developed the equal pay principle into an equal treatment principle. Therefore, our temporary workers receive the same hourly compensation as our permanent workers and are treated in exactly the same way.

WORKING CONDITIONS

Part of our efforts to grow as an attractive employer is the continuous improvement of working conditions. Good working conditions go beyond compliance with labor law and other applicable regulations and have to be ensured for all locations and functions. Throughout the CR chapter, we describe several important topics that form part of our understanding of good working conditions, such as appreciation and flexibility, development opportunities, and health and safety measures. These efforts benefit our employees, but at the same time they become a necessity for us as we are constantly growing and competing for the best talents.

OUR CO-DETERMINATION CONCEPT

DMA Freedom of Association and Collective Bargaining

For Zalando, a crucial part of good working conditions is the freedom to express opinions, give feedback and thus shape the work environment. We embrace the freedom of association and ensure that this right is respected at all times in all parts of the company. In the last report in 2015, we already presented our co-determination concepts within the different legal entities. The latest body that was introduced in the last report is our ZEP (Zalando Employee Participation), which started as a pilot project and is now an important driver for feedback and exchange among Zalandos in Berlin with the Management Board.

SPECIAL FOCUS ON LOGISTICS

Around 60% of Zalandos work in our operations. We highly appreciate the amazing contribution to Zalando’s success that our efficient and motivated operations is providing. Of course, we want to provide good working conditions for all Zalandos, but we especially focus on protecting and enabling those who are working in the demanding jobs within our operations.

G4-LA14

Since we started our fulfillment activities, we have been aiming to continually improve and optimize our working conditions. These improvements and optimizations are attested to in our regular reviews by an external certification authority. In 2012, Zalando defined the set of social standards we expect our own fulfillment centers and those of our partners to comply with. For our own fulfillment centers, their implementation is checked once a year through internal reviews and twice a year through unannounced audits by an independent external institution, DEKRA. In the last DEKRA report for our three fulfillment centers (Brieselang June 21, 2016, Erfurt June 23, 2016 and Mönchengladbach April 14, 2016), we reached an average score of 1.3 (from 1 = very good to 4 = not acceptable). Our fulfillment center in Lahr started in August 2016 and will have its first audit in 2017. For fulfillment centers run by our partners, we assigned an external independent auditor to check the implementation of our social standards twice a year.

Experience Zalando
zln.do/en-Erfurt

Our ambition is to further improve these standards in the future. In order to embrace the needs of our employees, we run surveys on a regular basis. The last survey in our fulfillment centers revealed that 69% of our employees would recommend Zalando as an employer to their friends and family and 76% indicated that they are in general happy to work at Zalando. 77% of our employees indicated that they have fun at work and 82% perceived the way they are treated by their leaders as fair and respectful.[7] While these results show us that we are on the right track, we are dedicated to continuously improving our performance in the future.

Furthermore, employees in the fulfillment centers can reach out to our social workers to receive counseling even on private matters. To support employees balance work and family life, we introduced a family-friendly shift system for parents. The idea behind it was born at a round table, which is one of the many ways we offer our employees to regularly participate in forming the culture of our company. Other ways are the employee surveys, weekly office hours with the management of the fulfillment center, and participation in or contacting the respective work councils. Through our employee magazine, we keep our employees informed about all the activities and developments.

HEALTH AND SAFETY OF OUR EMPLOYEES

The health and safety of our employees is of the utmost importance to us. We follow the "vision zero" with the goal to entirely preventing accidents and protecting our employees' health. Within our prevention strategy, we defined concrete goals to limit the risk of accidents and occupational illnesses. We continually review and improve the conditions in all our locations. Our health management not only focuses on the physical, but also on the psychological health of our employees.

DMA Occupational Health and Safety

OFFERING A SAFE AND HEALTHY WORK ENVIRONMENT

As the health and safety of our employees is a crucial topic for us, we go beyond legal requirements and set clear and reliable structures in our administration and our operations to ensure that we have the best solutions for every specific work situation. All Zalando companies are inspected by an Occupational Health and Safety Committee – depending on the risk identified for the respective workplaces once per month or every six months. In the inspections, appropriate measures are identified and their effect checked in subsequent inspections.

HEALTH AND SAFETY INDICATORS → 09

G4-LA6

	2016	2015
Absentee Rate Zalando Operations	11.2%	11.3%
Absentee Rate ZALANDO SE	5.3%	5.1%
Occupational disease rate	0	0
Work-related fatalities	0	0

IN OUR OFFICES

In our offices, we implemented several measures to prevent accidents in the working place, e.g. online tutorials and training for fire safety assistants and first aiders, by providing protective equipment, and giving information on digital communication platforms. Furthermore, we cooperate with experts and company doctors to offer our employees health-supporting activities on a regular and voluntary basis, e.g. preventive occupational medical care, vaccinations, health days, ergonomics consultations in the workplace, team sports activities and events.

7) In the survey employees can rate statements from 1 (disagree completely) to 5 (agree completely). The results mentioned above combine the share of people who replied 4 or 5.

IN OUR LOGISTICS

We cooperate closely with the work councils as all health and safety-related topics are decided in agreement with the employee representatives. There are committees on occupational health and safety, following up on all topics that focus on the needs of our employees. Examples of improvement measures regarding ergonomic workplaces are height-adjustable tables in our fulfillment centers and shift plans that avoid monotonous motion sequences. Further, employees can benefit from free vaccinations, weekly sport activities, and our annual company relay. In all this, we work closely together with our in-house doctors and jointly agree on areas of improvement.

OUTLOOK 2017

Zalando strategy

- In 2017, we want to attract more talents that are eager to shape our success story with their creative and bold ideas.
- To provide further development and collaboration opportunities for our employees, we will ignite a multi-source feedback culture.
- By leveraging our I & D culture, we will strategically develop talents to increase diversity within higher management.

01.4.3 do.KNOW

do.KNOW

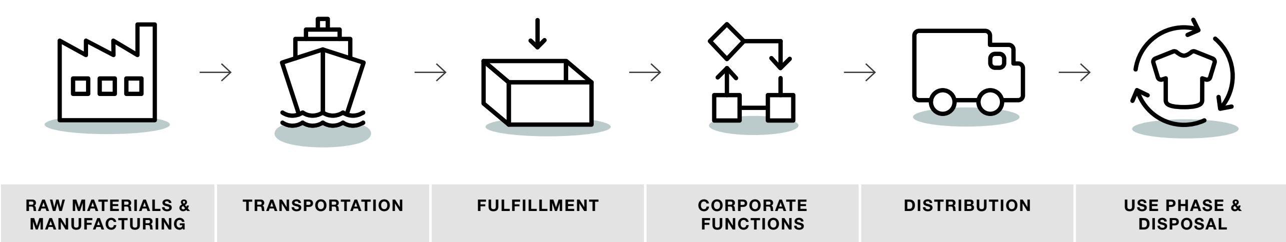
- As a young company, we want to know more about our supply chain and our possibilities to improve our impact within each stage.
- We are aware of our responsibility to the people that work in our supply chain and try to ensure in various ways that our goods are ethically sourced.
- In our shop, we aim to increase the number of sustainable articles and provide more relevant information so that our customers can make informed buying decisions.

OUR SUPPLY CHAIN

G4-12

OUR SUPPLY CHAIN

→ 07



Where do the items that we sell on our platform come from? The supply chain of an e-retailer can be roughly divided into six stages. We receive final products from our third-party brands and private labels, which are then transported and stored in our logistic centers network. Products are delivered to the final customer by distribution partners. All operating activities that complement our logistics network are summarized as "corporate functions", e.g. technology, marketing, and customer care.

Managing a global supply chain poses many challenges, especially regarding human rights, labor conditions, and the environment. We are constantly evaluating the impact of our business at each stage in the value chain in order to find the right solution for different challenges.

We approach the supply chain management for third-party brands and our private labels differently. For our private labels, our level of influence is evidently higher so we engage directly with our suppliers in the sourcing countries and will share more details about our approach in the following section Sourcing for our Private Labels.

When it comes to our third-party brands, we also recognize the responsibility we share to improve the conditions in the value chain. We define minimum standards for all our partners on topics such as product safety, animal welfare, and labor practices in respective codes and policies. Beyond this we collaborate with some of them more closely and it is our aspiration to further strengthen those relationships to mutually learn from experiences and to jointly work on solutions for more sustainable fashion e-commerce in the future.

SOURCING FOR OUR PRIVATE LABELS

G4-6
G4-12

10–20% of Zalando's revenues are generated by our private labels, designed and sourced by our subsidiary zLabels. zLabels has 17 brands covering apparel and footwear for men, women, and children and goods are produced in 27 countries across the world. We do not own or operate any of the production facilities. Our main sourcing countries are China (48%), Turkey (10%), India (9%), Bangladesh (7%), Portugal (5%), Romania (4%), Spain (3%), Vietnam (3%), Italy (2%), and Cambodia (1%). We work with agents, suppliers, and factories directly to ensure we positively impact working conditions.

zln.do/zLabels

It is our goal to develop strong and lasting relationships with our suppliers. For this purpose, we developed a supplier rating system that includes criteria such as quality, reliability, and compliance with our standards. We use this rating system to decide which suppliers receive more orders, dedicated training, and insights into order planning. Further, we consolidate the suppliers we work with. In 2015, we had 332 suppliers with 608 factories; in 2016 we had 278 suppliers (–16%) with 464 factories (–24%).

We are aware of our responsibility to the people that work in our supply chain and are committed to ensuring that our goods are ethically sourced. At the same time, we want to provide convenient and inspiring shopping experiences to our customers. The speed with which we deliver products and our global sourcing model makes it challenging to meet the needs of the business while maintaining our continued commitment to workers and the environment. We are also conscious of the complex and systemic issues within our supply chain and are striving to team up with the right partners to find innovative solutions.

OUR AUDIT PROGRAM

As part of our onboarding process, all new suppliers and their factories must sign our Code of Conduct. It is based on the principles of the Universal Declaration of Human Rights (UDHR) and the Conventions of the International Labor Organization (ILO).

DMA
– Supplier Assessment for Labor Practices
– Freedom of Association and Collective Bargaining
– Child Labor
– Forced or Compulsory Labor
– Supplier Human Rights Assessments
G4-15
G4-LA14
G4-HR4
G4-HR5
G4-HR6
G4-HR10

In addition, all factories must provide a recent audit done by an accredited, external third-party. Based on the findings of the audit a rating is given to the factory, a Corrective Action Plan (CAP) is developed, and we ask suppliers and their factories to demonstrate improvement in all identified areas. For a new setup, a supplier and the corresponding factory have to meet all ethical requirements before orders can be placed. If critical findings are observed, we do not begin the relationship without evidence that the existing findings have been remediated.

If a critical non-compliance is found at an existing factory, we require evidence of improvement to continue our business relationship. We work with nominated third-party consultants who provide external support on resolving non-compliances at supplier factories.

This year, we developed a new database that connects various parts of our business to ethical factory information. This database allows suppliers to manage their factories, audits and CAPs. It also helps us to increase the transparency of our processes with suppliers and within other parts of our business. Now we can easily track each factory's progress and provide reminders to suppliers and their factories on uploading evidence and CAP closures.

We recently reviewed our audit program and plan to re-launch it in 2017, reducing the number of nominated third-party audit partners and refreshing our factory grading process.

TRAINING OUR EMPLOYEES

All zLabels employees, including those involved in supply chain management and sourcing of products, must attend mandatory training on our Ethical Trading program. This training includes understanding our Code, prevention of forced labor and human trafficking, as well as other ethical standards that must be maintained at factories within our supply chain.

CONTINUOUS IMPROVEMENT

We are committed to improving working conditions and realize that to achieve this target, we need to go beyond auditing and support our suppliers' factories on the ground with the help of independent local partners. Before engaging at factory level, we spent time this year working with our suppliers on the importance of ethical trade, our requirements, and how we hope to see their factories improve. At the zLabels 2016 Vendor Summit in China, Thailand, and Germany, we explained our ethical trade requirements to suppliers and undertook interactive workshops on the importance and benefits of building strong management systems in factories.

We also spent the last year building and developing our Factory Improvement Program. To better understand how to drive continuous improvements in our suppliers' factories, we rolled out pilot improvement programs in Bangladesh, China, and Romania. We also want to work with the right partners to ensure we have a robust process in place and have spent this year identifying and evaluating our strategic partners who will support zLabels to develop and implement the program in 2017.

Next year, we will grow our program with the support of new teams in our sourcing countries along with our external partners.

We also have developed a new country risk categorization based on international indicators as well as audit findings to identify high and medium risk countries. For factories in high risk countries, we have identified programs or additional requirements to ensure the protection of workers and the environment. With our suppliers and their production facilities spread across the world, this allows us to focus our work on areas where the greatest improvements can be made. While we have been focused on developing our program this year, we know we still have a long way to go implementing and improving it.

ANIMAL WELFARE

For all the products sold on our platform, we want to ensure the considerate and ethical treatment of animals and the protection and conservation of biodiversity. Therefore, we issued a company-wide policy on Ethical Sourcing Standards in 2014. The policy states our expectations towards our suppliers regarding the proper handling of animals as well as the protection of biodiversity.

DMA Marketing Communications

G4-15

Our sourcing standards are based on the Directive 98/58/EC concerning the protection of animals kept for farming purposes, the World Organization 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 by the International Union for Conservation of Nature (IUCN).

G4-16
G4-PR6

As a matter of principle, Zalando does not buy any products that originate from endangered species and condemns any form of animal cruelty. We only allow products from farming animals that have been bred for meat production. Since 2012, Zalando has discontinued any items containing fur and in February 2016, we officially joined the Fur Free Retailer Program. The Fur Free Retailer Program is an international effort to give consumers accurate information about a retailer's fur policy. The program recognizes and supports retailers who have committed, in writing, to a no-fur policy.

The CR team regularly trains our buyers on our animal welfare standards to increase awareness and ensure compliance to the policy.

HIGH QUALITY OF PRODUCTS

Zalando has made a commitment to high quality and product safety standards in the interest of customers, employees and factory workers. As part of this philosophy, Zalando works based on a Restricted Substances List that summarizes all applicable legal requirements and our additional standards which go beyond those required by legislation. We are dedicated to implementing these standards for all our private labels and third-party brands.

DMA Customer Health & Safety

PRODUCT SAFETY AT ZLABELS

For our private labels, we check products at very early stages so that items that reach the Zalando shop comply with our standards. With this effective system we were able to entirely prevent recalls in the area of private labels in 2016.

This result was made possible by the successful introduction of the comprehensive quality management system (QMS) that we already presented in our annual report 2015. This QMS was developed together with TÜV Rheinland and represents a holistic supplier development approach, which assesses suppliers in dimensions such as safe use of chemicals, quality, and reliability indicators. As we are updating this quality management system continuously, we will audit our QMS bi-annually.

At zLabels, we continuously assess and develop our suppliers. We strive to increase transparency among tier 1 suppliers and beyond. An essential part of the supplier development is the chemical analysis provided by independent international testing institutes. The test results show an improvement in our failure rate which was reduced by 40% from 2015 to 2016 for all tested products. We will strive for further reduction in failure rates in 2017. G4-PR2

The available data is reviewed on a monthly basis during the zLabels quality circle, which decides on further development of each supplier, possible delistings, and corrective actions or adjustments.

PRODUCT SAFETY FOR THIRD-PARTY BRANDS

Our suppliers of third-party brands already maintain high quality standards along their supply chains themselves. Nevertheless, we implemented processes to ensure that the quality of their products complies with our standards. This led to a recall rate as low as 0.01% of items with an assortment range of around 200,000 units in 2016. While we had 26 recalls in 2014, we had 39 in 2015 and 15 in 2016. G4-PR2

The basis for product safety control mechanisms for third-party brands is divided into two approaches – proactive and reactive.

The proactive work is based on a scorecard approach that enables Zalando to examine products from suppliers that show a higher risk of safety concerns. We collaborate with the higher risk partners on improving their processes and standards to ensure products' full compliance. In 2016, the scorecard was further rolled out across our supplier portfolio to deepen our understanding of the entire industry's standards for product safety. With targeted sampling and evaluation, we can detect suppliers that follow best practices in the industry and share this knowledge within our supplier network.

The reaction-driven testing stems from various information channels, such as Customer Care, weekly RAPEX[8], and media reports. If the information from these channels leads to doubts about a product's safety, Zalando stops selling this product as a precaution and recalls sold products from our customers immediately, if necessary. We are currently working on improving our analysis of customer reviews to be able to react to their concerns faster.

In conclusion, we are continuously striving to further improve the safety of all the products sold at Zalando.

8) Rapid Alert System of the European Commission

SUSTAINABLE PRODUCTS AND PRODUCT TRANSPARENCY

At Zalando, we are proud that our products reach almost 20 million active customers. We see this as a major asset not only for our business model, but also for our influence on sustainable consumption. Transparency will be key for changing the game for sustainable fashion and technology will drive this development. We trust our customers to make conscious and qualified decisions so we want to use technology and our fashion expertise to provide them with all relevant information.

DMA Products and Services

The challenge is complex and we know that we cannot do the job alone: We will team up with those who bring complementary assets to the table. We regularly track the development of the sustainable fashion market and learn from our customers to shape and prioritize our activities according to their needs. We also started learning from brands about their wishes regarding the disclosure of sustainability-related information since we want to become their first choice for selling sustainable fashion online.

It has always been possible to shop for sustainable products at Zalando, but in the past those products were rather difficult to identify. In order to help our customers identify sustainable products we introduced a new flag this year, highlighting relevant items. Newly developed features in our shop allow us to add sustainability-related information to our items, such as certificates, license numbers or information about testing institutes. These features were introduced in the kids category first as we know that parents in particular care about sustainable products. As a part of our pilot activities, we grew our sustainable items portfolio in the kids' category to over 1,100 from 36 different brands. In 2017, we plan to transfer those changes to other categories.

DMA Product and Service Labelling

At the moment, we only include articles in our sustainable assortment that have at least one certificate, such as GOTS, Fairtrade or others. In the future, we want to go beyond this and start adding other relevant information regarding sustainability aspects of items and brands in order to inform and educate our customers.

G4-PR3

We also successfully launched the first range of sustainable products across five zLabels' brands. Rather than working on a pilot within one brand, we chose a portfolio strategy, working across brands and product categories to ensure our customers have the option to make more environmentally-friendly choices. Products were created using sustainable raw materials and production processes adhering to the rigorous criteria of the Global Organic Textile Standard (GOTS) and the Global Recycled Standard (GRS). The materials used included organic cotton and recycled polyester. The first products were launched in January 2017 for the spring/summer collection 2017.

G4-EN27

We will evaluate the success of this sustainable product range in 2017 and continue to launch products for fall/winter 2017.

OUTLOOK 2017

- To further improve our impact on people along the zLabels value chain, we will roll out the Factory Improvement Program in 2017.
- Further, we want to extend product safety testing processes and the responsible use of chemicals beyond tier one.
- In 2017, we will leverage our expertise in technology and fashion to increase the sustainability-related information on products together with the offer of sustainable articles in our shop.

Zalando strategy

01.4.4 do.PROTECT

do.PROTECT

- As a fast growing e-commerce company, we acknowledge the effect that our company and our industry have on the environment and are dedicated to mitigate this impact.
- The focus of our environmental efforts in 2016 was on identifying the sources of direct and indirect greenhouse gas (GHG) emissions in our value chain and on implementing a system that allows us to continuously measure them.
- Reduction and recycling are our main approaches towards a sustainable use of resources.

CLIMATE IMPACT

DMA Emissions

CALCULATING OUR CO_2 EMISSIONS

Studies[9] show that the main climate impact in the lifecycle of clothing arise from the extraction of raw materials, textile manufacturing and the consumer-use phases. In 2015, we started measuring our carbon emissions focusing on the transport, fulfillment, business (own operations), and distribution phases. When considering the entire lifecycle of our products, some of the above-mentioned phases were not included in our first corporate carbon footprint, the reason being that we decided to prioritize the areas where we believe we have the biggest influence and hence potential for reduction.

G4-EN15
G4-EN16
G4-EN17

Our carbon emissions[10] were calculated according to the internationally recognized guidelines in the Greenhouse Gas Protocol Corporate Accounting and Reporting Standard (GHG Protocol), taking 2015 as the year against which all future changes in emission levels will be measured. We have chosen this year as it is the earliest relevant point in time for which reliable data for emission sources were available. For the conversion of consumption data into carbon emissions, primary as well as secondary data from lifecycle analysis databases like ecoinvent and GEMIS was used.

Scope 1 and 2 of our carbon footprint include the administrative and logistics sites we operate[11]. Since emission sources under scope 3, such as outbound logistics are paramount in our environmental footprint, all relevant emission sources under scope 3 are considered as well, including:

- Outbound logistics (to all 15 countries where our products are sold)
- Production of our packaging
- Inbound logistics (transportation of third-party brands products covered by us, of zLabels products, and of Zalando's packaging materials)
- Employee commuting and business travel
- Office materials
- Waste generated in our operations

CO_2 EMISSIONS → 10

IN METRIC TON	2016	2015
Scope 1	3,868	3,131
Scope 2	26,048	23,118
Scope 3	154,402	120,272
Total	**184,318**	**146,522**

9) Apparel Industry Life Cycle Carbon Mapping, June 2009. Business for Social Responsibility; Social and environmental impacts of a T-shirt: A life cycle approach, January 2017. Green-Delta GmbH.
10) Greenhouse gas (GHG) emissions are disclosed as CO_2 equivalents (CO_2e). All greenhouse gases regulated by the UN Kyoto Protocol have been accounted for: carbon dioxide (CO_2), methane (CH_4), nitrous oxide (N_2O), sulfur hexafluoride (SF_6), hydrofluorocarbons (HFCs), and perfluorocarbons (PFCs). For better legibility, the emissions are simply referred to as carbon emissions and reported in units of metric tons of CO_2.
11) The GHG Protocol classifies carbon emissions as direct (emissions from sources that are owned or controlled by the reporting entity) or indirect (emissions that are a consequence of the activities of the reporting entity, but occur at sources owned or controlled by another entity). The Protocol further categorizes these direct and indirect emissions into three broad scopes: Scope 1 refers to all direct GHG emissions, scope 2 to emissions from consumption of purchased electricity, heat or steam, and scope 3 refers to other indirect emissions, such as the extraction and production of purchased materials, employee commuting or business travel.

Our total carbon footprint in 2016 was 184,318 metric tons of CO_2 in comparison to 146,522 metric tons of CO_2 in 2015. This increase was primarily driven by the growth of our company. Additionally, the scope of data collected to determine the total footprint has increased from 2015, now including emissions from the inbound transportation of third-party brands and energy consumed in our international offices. At a parcel level, CO_2 emissions were approximately 2.8 kg of CO_2.

G4-EN18

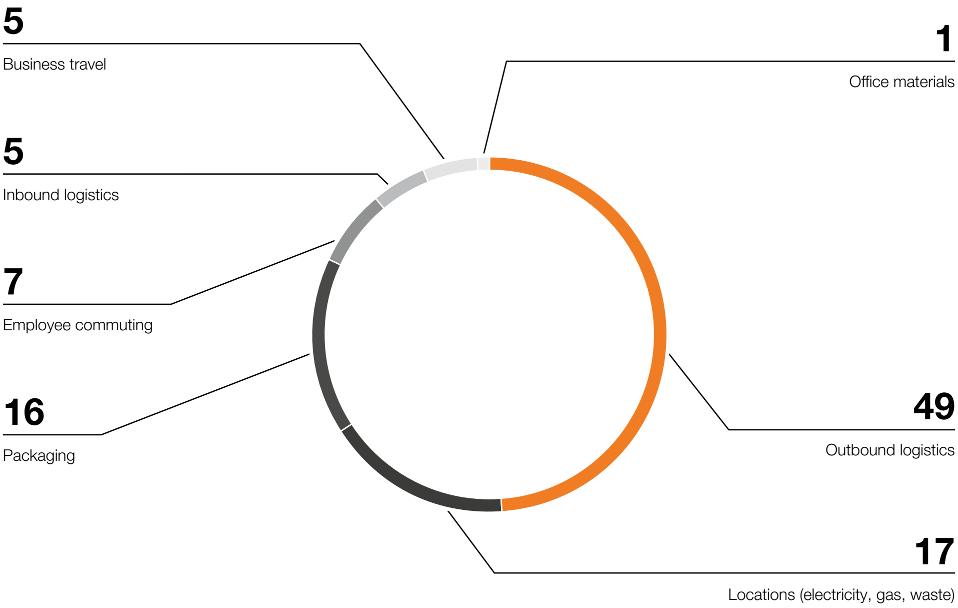
Main triggers for CO_2 emissions in the reporting year were the transportation of parcels to our customers (49%), the energy consumed in our offices and fulfillment centers (17%), and the production of the materials used for packing the products we sell (16%).

CO_2 EMISSIONS BY SOURCE (2016)

→ 08

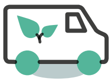
G4-EN30

IN %



OPTIMIZING TRANSPORT

The delivery of products to our almost 20 million customers in 15 different countries is at the heart of our business model. It represents the single largest source of current emissions at Zalando.



DMA Transport

In 2016, we initiated various projects with the objective of minimizing the impact of our logistics activities. For example, we launched a pilot to extend our delivery and returns network. We increased the number of pick-up points in countries like France and Italy, which allows us to reduce the number of trips required to deliver parcels to our customers. With 'Fulfillment by Zalando' we are not only ensuring that partner articles are sent via our optimized logistics network, but we will also be able to bundle orders consisting of partner's items and other brands into one, reducing the number of total deliveries. When it comes to our returns, we aim to provide our customers with as much detailed information about our products as possible to reduce the number of returns resulting from products not matching customers' expectation. Detailed information for each item is shown in the website including photos and text, as well as product reviews from other customers. We also use other features such as product videos and 360° view.

G4-EN30

Further information in the Zalando City Guide
zln.do/en-fulfillment

We acknowledge that there is still more work to be done if we want to significantly reduce our environmental impact. In the future, our aim is to work more closely with our logistics providers in order to jointly reduce the carbon footprint originating from our deliveries.

With a growing workforce, business travel and commuting emissions are becoming more and more significant. Together they make up 12% of our total CO_2 emissions.

We have implemented several measures in order to reduce travel-related environmental impacts. Our travel policy puts phone or video conferencing first to reduce unnecessary travel. For distances shorter than 400 km, we strongly recommend our employees travel by train. The policy also states that rental cars have to be chosen from the compact class, allowing us to reduce costs as well as CO_2 emissions. Our company car guidelines include the option of leasing cars with alternative drives (e.g. electric cars), thus promoting the use of sustainable mobility.

To facilitate the mobility of our employees between our Berlin offices, we provide a shuttle bus, tickets for public transport, an internal corporate car, and bike sharing. Thereby, we promote commuting between locations through eco-friendly mobility. But our efforts do not stop in Berlin. In our Erfurt location, a mobility assistant takes care of travel sharing and additional bus services, as well as other environmentally-friendly ways to go to work.

In the future, we will continue to look at ways to optimize our car sharing fleet and to raise awareness for environmentally-friendly means of transportation for business travels.

RESOURCES

OUR ENERGY CONSUMPTION

The energy consumed in our offices and fulfillment centers constitutes the second largest trigger of GHG emissions in the company. Electricity is the main energy type consumed at both administrative and logistics sites. Electricity for all our locations is sourced from a mix of 34% renewable sources and 66% fossil fuels.

DMA Energy

ENERGY CONSUMPTION → 11

G4-EN3

IN MWH	2016	2015
Electricity (total)	37,159	33,379
Electricity from renewable sources	12,634	11,349
District heating	2,761	1,758
Natural gas	16,351	13,644
Car fleet	1,072	785
Total	**57,342**	**49,567**

Energy efficiency and convenience for employees are important design criteria for Zalando locations. We demand a German Sustainable Building Council (Deutsche Gesellschaft für Nachhaltiges Bauen) certification for all new fulfillment centers and offices. Certified buildings conserve resources and display lower greenhouse gas emissions. Zalando became a member of the German Sustainable Building Council in October 2016. This membership allows us to learn from and with industry experts about the sustainable and efficient construction and use of buildings.

Another step towards reducing our energy consumption was the decision to exchange the conventional lighting at our fulfillment center in Brieselang for LED lighting. As a result of this, we have made monthly average energy savings of 80 MWh. This is equivalent to the annual energy consumption of 26 households in Germany[12]. In 2017, LED-lighting will also be installed in our Lahr and Mönchengladbach locations.

All fulfillment centers run by Zalando have a building management system with an integrated energy management system installed. In order to ensure a holistic approach to energy management, in 2017 a smart-meter structure will be integrated at our fulfillment centers as well as at all relevant administrative locations. Smart-meters provide accurate energy use data in real-time. Making energy consumption transparent will enable us to manage it in a more efficient manner.

INCREASING RECYCLED PACKAGING

In 2016, 26,365 tonnes of packaging materials were used to deliver the parcels to our customers. 91% of them consist of renewable materials. Increasing resource scarcity results in a growing urgency to become more efficient with the use of packaging. As an online retailer, we consistently aim to improve our performance on this important lever.

DMA Materials
G4-EN2

Zalando's approach to the use of packaging material and consumables is based on customer-centricity and ecological aspects. Central to our business model, we are continuously working to ensure that our customers have the best unpacking and return experience in the industry.

When it comes to the ecological aspect, we continuously look for possibilities to increase the share of recycled content in our parcels and to make packaging recyclable. Our boxes consist of 98% recycled material. Even the white top layer on the cardboard consists of recycled newspaper. All the printing inks used are water-based and therefore environmentally friendly.

In addition to cartons, Zalando is making greater use of shipping envelopes. These offer stable protection during transportation and also have ecological benefits. The shipping envelope is designed in a way that our employees can vary its size when closing it. In addition, ventilation holes ensure that unneeded air can escape to minimize the volume needed for the articles transportation. Thereby, we reduce not only our carbon footprint during shipping but also fulfillment costs. The share of total volume shipped in shipping envelopes has increased from an average of 12% in 2015 to 17% in 2016. A reasonable further increase in the share of shipping envelopes is planned and currently being reviewed.

Furthermore, we are looking into possibilities to reduce the amount of packaging we use. The choice of material is an important factor. Our primary approach is not the substitution of conventional materials with bio-degradable substances like corn or starch, but instead to consistently minimize the amount of material that goes into the production of each package. For example, we managed to significantly reduce the thickness of the shipping envelopes and other plastic materials in the past years.

12) In 2014, the average of the annual electricity consumption in German households was 3,079 kilowatt per hour. Source: World Energy Council.

In 2017, we will introduce an algorithm-based recommendation for packaging at all our packing stations, which is based on the dimensional weight of our articles. This will allow us to avoid using packaging materials that are too big for the articles being packed. In our fulfillment center in Mönchengladbach, we will introduce two machines for automated packaging of single unit orders into shipping envelopes. This will significantly reduce the amount of material used as the item will be packed into a bag that perfectly fits its size.

REDUCING WASTE

The main types of waste at our offices are paper and residential waste, whereas at our fulfillment centers, outlets, and photo studios most of the waste comes from the packaging used for the delivery and returns of the products we sell. 51% of materials used to package all product categories were reclaimed in 2016.

DMA Effluents and Waste
G4-EN28

TOTAL WEIGHT OF WASTE BY TYPE AND DISPOSAL METHOD → 12

G4-EN23

IN TONNES*	
Non-hazardous waste	**16,450**
Waste disposal method	
Recycling	14,793
Reuse	329
Waste incineration	1,328
Hazardous waste	**55**
Total	**16,505**

*) The waste disposal method was determined with information provided by our waste disposal contractors.

We are aware that the disposal of packaging materials is a growing environmental challenge. Because of this and also for economic reasons, recycling of our packaging plays an important role at all our logistic sites: All no longer usable cartons and foil bags are collected, separated and recycled accordingly. Yet our responsibility for packaging recycling does not stop at our locations. It continues even when the parcel arrives at the customer. Therefore, information about the recyclability of our packages is included in the package itself. No matter whether a box, shipping envelope or foil bag is used, all packaging is 100% recyclable.

DMA Products and Services

We have also implemented various measures in order to reduce the amount of waste generated at our administrative offices. We have installed tap water dispensers and and provide drinks only in reusable bottles. All fruit delivered to our offices comes in reusable boxes without any additional packaging. Additionally, in the second quarter of 2016, we introduced a common system for effective waste separation at all our locations.

OUTLOOK 2017

— At Zalando, insight leads to action: Our next step is to develop a climate protection strategy that allows us to define targets and concrete initiatives to reduce our carbon emissions.

Zalando strategy

- We will continue to explore opportunities to increase the use of recyclable materials and renewable resources, as well as to reduce the amount of packaging we use.

01.4.5 do.CONNECT

do.CONNECT

- Instead of reinventing the wheel, we want to do our bit to solve societal challenges by helping to scale social innovations with a proven track record.
- In 2016, we invited people with successful solutions for the integration of refugees to participate in the Hello Festival in Berlin and afterwards supported them to scale their impact in Germany.
- This year, more than 600 Zalandos started serving our local communities with great passion and enthusiasm as volunteers.

IMPACTING LOCAL COMMUNITIES

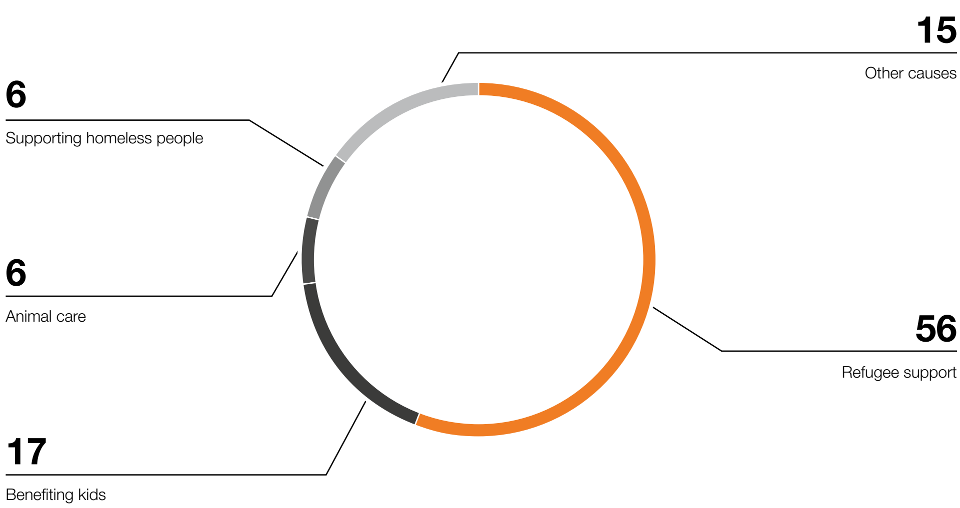
DMA Local Communities
G4-SO1

We want to be an active and integrated partner of the communities around us and believe that engaging locally around our offices and warehouses creates value for the society as well as for our company. We grant all employees up to two fully paid days off work annually and we actively encourage them to use their time and skills to support local non-profit projects they care about.

For our employees, this provides an opportunity to get to know each other in new settings, get out of their comfort zone, and learn in new environments. We welcome this positive effect, but also want to be sure their volunteering brings value to the projects they engage in. That is why we teamed up with the social business Vostel, an expert in providing meaningful volunteering opportunities to help ensure quality and impact. Vostel serves as an advocate to the projects we support, provides needs assessments, and runs regular feedback loops with counterparts in the projects to safeguard the intended win-win situation.

CAUSES ZALANDOS VOLUNTEERED FOR 2016 → 09

IN %



640 Zalandos

volunteered 4,180 hours benefiting 50 social projects

OPPORTUNITIES FOR INTEGRATION

In order to make fashion accessible, we acquired the Bread&Butter trade show in October 2015 together with a lease for the former Tempelhof airport. The show used to be part of the Berlin Fashion Week with access limited to fashion experts. We wanted to open it up by creating a fashion festival for customers. However, in 2015, Tempelhof became the home for thousands of refugees. We decided to postpone our first 'Bread&Butter by Zalando' and instead use the time and skills of the responsible teams to do our bit to help those who have to start over in Germany.

Further information in the Zalando City Guide zln.do/en-b-and-b

At the beginning there was a simple insight: If we want to help efficiently, we should not reinvent the wheel but support the best existing solutions from around the world to grow their influence in Germany. To achieve this, we initiated the "Hello Festival", teaming up with the global NGO ASHOKA to find the world's most powerful social entrepreneurs in the field of refugee integration. TEDx Berlin, Streetfootballworld, Betterplace, and almost 30 other partners across all sectors helped us set a stage for thirteen of them. In March 2016, they inspired more than 3,000 local experts, multipliers, and citizens at the three days Hello Festival by telling their story about impacting communities with hundreds of thousands of locals and refugees. Our employees and partners collected a total of nearly EUR 250,000 for the "Innovation fund for integration" to support the social entrepreneurs scale their impact in Germany. More information on the social entrepreneurs and their German partners can be found online.

Further information in the Zalando City Guide zln.do/en-hello

After the Hello Festival, we continue supporting all funded projects with a fellowship program that is designed to multiply their impact over time. We also support some of the projects individually. For example, 75 refugees started using our hardware to work as professional counsellors for other refugees, trained by the social enterprise ipso e care. Another example is SINGA, for which some of our employees are mentors to refugees; others help them prepare for job applications.

OUTLOOK 2017

Zalando strategy

- We want to grow our expertise in helping social innovation scale, supporting not only the integration projects of the Hello Festival but also solutions related to our core capabilities Technology, Operations, and Fashion.
- We will continue supporting the communities around us so that doing our bit becomes a natural part of our corporate culture.
- We will look into methodologies that allow us to capture and report on the impact of our activities.

01.4.6 do.RESPECT

do.RESPECT

- Zalando emphasizes the importance of compliance and good corporate governance and strives to ensure compliance with all applicable laws at all times.
- Raising awareness among our employees regarding the importance and sensitivity of topics like anti-corruption and customer privacy is a major concern to us.
- We enable our customers to better understand their rights related to data protection and share our expertise with other companies.

COMPLIANCE AND ANTI-CORRUPTION

At Zalando we respect the people we work with and the laws that shape our business environment. As mentioned throughout the chapter, we are striving to create a culture of honesty and trust. To supplement this culture, we have built structures that prevent non-compliance with applicable laws and processes that help detect non-compliance.

G4-56

The Zalando Code of Ethics as well as the Code of Conduct for Business Partners explicitly state that non-compliance with applicable laws is not accepted by the Zalando group. The Code of Ethics is published on our corporate website and on our intranet. Complaints can be addressed to the centralized Governance, Risk & Compliance (GRC) team, in a number of ways including anonymously via email. In 2016, there were no complaints regarding labor practices or human rights violations. All Zalando employees receive compliance training, either via face-to-face training or via eLearning, and information on complaint mechanisms form part of the training.

DMA Labor Practice Grievance Mechanisms
G4-LA16

Furthermore, Zalando has implemented an integrated Risk and Compliance Management System (RMS and CMS). Bi-annual risk workshops are carried out throughout the group to compile the group's risk inventory. Zalando's Code of Ethics as the basis of all relevant policies explicitly states that Zalando does not accept any form of corruption. Zalando has furthermore issued internal Group Policies to provide further guidance and to avoid any form of corruption, e.g. with regard to benefits and gifts, travel, and events. Respective compliance and anti-corruption training is obligatory for all white-collar employees. All leaders have to attend classroom training; other employees receive the training via eLearning. In addition, new employees are immediately instructed during our Onboarding Event and have to complete the training within their first three months. Donations and sponsorship are centrally monitored by our Corporate Responsibility team.

DMA Anti-Corruption
G4-14
G4-SO3
G4-SO4

DATA PROTECTION AND CUSTOMER PRIVACY

As a technology company, we take the protection of customer data very seriously. Data protection is a matter of trust and we respect our customers' personal space and privacy. Therefore, protecting personal data and collecting, processing, and using the data in accordance with the law are important concerns to us.

DMA Customer Privacy

Our Code of Ethics holds all employees responsible for ensuring that Zalando's high standards of data protection are respected without exception. Our IT policy and obligatory training for all employees are two measures that increase awareness among employees.

According to the applicable data protection laws, we inform customers on the personal data that we use, the purpose and processing of personal data, and the opportunity to object to data storage including contact options to raise concerns. We also have a team within our customer care which is dedicated to customer requests concerning data protection issues raised by customers.

zln.do/en-privacy-policy

Additionally, we are in contact with governmental authorities with regards to processing of personal data, mainly the Berlin Data Protection authority (Berliner Datenschutzbehörde). In previous years, we had the following number of enquiries by governmental authorities for the whole of Zalando: 2014: 6; 2015: 9; 2016: 6.

G4-PR8

The enquiries usually originate from dissatisfied customers who either did not approve of the information provided to them by Customer Care or, instead of contacting us directly, approached the authorities (German authorities are legally obliged to follow up on any complaint raised by customers). Additionally, the enquiries may also concern technical questions with regard to our data processing like the usage of cookies on our website.

When such an enquiry takes place, it is immediately forwarded to the Legal department which will then follow up with the authority, provide the requested information, and settle the request. There have not been any court proceedings with regard to unlawful data usage or data processing by Zalando initiated by any authority. Furthermore, up to now Zalando has not been fined for any breach of data protection laws.

Recently, Zalando developed an open source tool that creates a one-pager for a company's data privacy statement. Every German company – ranging from DAX companies to start-ups and bloggers – can use it to show customers in a very simple and transparent way what happens with their data. The basis of the tool is a form that was developed by the German Ministry of Justice. For the digital business, it is crucial to build up the customers trust; it could even become a competitive advantage of European companies. With the tool, we want to help both sides: Customers to better understand what happens with their data and German companies, especially start-ups, to easily create a simple one-pager which shows how data is used.

OUTLOOK 2017

- Our GRC team will grow its resources and expertise to secure compliance and risk avoidance along our international expansion in 2017.
- To further improve capabilities in data protection, we will build a group information security team, which will ensure that the efforts of our various teams and our information security are well aligned and follow a holistic strategy.
- As it is important to continuously inform and educate our own employees, we will further improve the training experience in both topics.

Zalando strategy

01.5 CORPORATE GOVERNANCE REPORT

Corporate governance, as practiced by Zalando, involves responsible management and control of the company geared towards long-term goals. ZALANDO SE's Management Board and Supervisory Board value good corporate governance very highly and align their approach to the recommendations set out in the German Corporate Governance Code. In the following, the Management Board and Supervisory Board submit the corporate governance report together with the statement on corporate governance in accordance with Section 289a HGB (German Commercial Code), as the content of the two is closely linked. In accordance with Section 289a HGB, the statement on corporate governance forms part of the management report.[13]

G4-56

01.5.1 DECLARATION OF CONFORMITY

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

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

zln.do/en-conformity

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

- **No. 3.8 Paragraph 3:** According to the Code's recommendations, a deductible shall be agreed upon for the members of the Supervisory Board when taking out D&O policy. The Company takes the view that such a deductible is not in itself suitable to increase the performance and sense of responsibility of the Supervisory Board members. Furthermore, it reduces the attractiveness of Supervisory Board positions and thus the Company's opportunities when competing for qualified Supervisory Board candidates.
- **No. 4.2.1 Sentence 1:** According to the Code's recommendations, the Management Board shall have a chairman or spokesman. So far, the three members of the Management Board of ZALANDO SE have worked together on an equal footing without any member performing the function of chairman or spokesman. The Supervisory Board does not see any reason why it should change this established and successful cooperation.

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

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

  This share option scheme does not contain an explicit rule requiring the consideration of negative developments. It includes performance targets linked to the average annual growth rate of the aggregated retail value of all sales transactions with persons or enterprises not belonging to the Zalando group. Negative developments are only taken into account by the fact that the execution of option rights, due to the strike price for the execution of the option rights, can become unattractive; therefore, we declare, for reasons of precaution, a deviation from No. 4.2.3 Paragraph 2 Sentence 4. With regard to the recommended cap for the amount of compensation within the meaning of No. 4.2.3 Paragraph 2 Sentence 6, the share option program provides for a cap in relation to the number of shares which will be allocated upon the exercise. No cap is foreseen on the achievable amount upon the exercise of the share options. In the opinion of the Supervisory Board, such a cap would not be appropriate as it would interrupt the alignment of interest between the shareholders and the members of the Management Board. According to its rationale, the share-based compensation aims to achieve an adequate participation in the economic risks and chances of the company by the members of the Management Board. As no cap in relation to the variable component is determined, consequently also no cap in relation to the overall amount of the compensation is determined so that a deviation from No. 4.2.3 Paragraph 2 Sentence 6 is declared. Lastly, it cannot be excluded that the agreed performance targets do not comply with the requirements laid down by the Code regarding demanding parameters. Therefore, we also declare, for reasons of precaution, a deviation from No. 4.2.3 Paragraph 2 Sentence 7.

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

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

01.5.2 CORPORATE GOVERNANCE

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

G4-34

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

Further information
Corporate Responsibility
p. 20

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

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

Further information
Risk and Opportunity Report
p. 98

Various communication channels have been installed to facilitate the reporting of presumed compliance infringements – on an anonymous basis if preferred. The Compliance Panel has been set up to clarify and assess potential compliance infringements. In fulfilling its duties, the Governance, Risk & Compliance department works in close collaboration with the Legal department and Internal Audit to ensure a uniform approach to appropriately evaluating and mitigating risks across functions. The Management Board bears overall responsibility for the proper functioning of the risk and compliance management system, and the Supervisory Board monitors the effectiveness of the system.

DMA Anti-Corruption

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

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

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

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

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

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

The Management Board currently does not have any female members. The term of office of the Management Board members runs until the end of November 2018, which thus exceeds the deadline for establishing a female representation target (June 30, 2017) pursuant to Section 111 (5) AktG. The Supervisory Board has therefore passed a resolution to establish a female representation target of 0% to be achieved by June 30, 2017 in accordance with Section 111 (5) AktG.

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

SUPERVISORY BOARD PROCEDURES

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

Further information Report of the Supervisory Board p. 8

MEMBERS OF THE SUPERVISORY BOARD IN FISCAL YEAR 2016
Lorenzo Grabau (deputy chairperson)
Lothar Lanz (chairperson since May 31, 2016)
Jørgen Madsen Lindemann (member since May 31, 2016)
Anders Holch Povlsen
Kai-Uwe Ricke
Dylan Ross
Alexander Samwer
Konrad Schäfers
Beate Siert
Cristina Stenbeck (member and chairperson until May 31, 2016)

→ 13

The Supervisory Board of ZALANDO SE has set targets regarding its composition. It strives for a composition that takes account of and safeguards the particular needs of the company so that the Management Board is monitored, supervised, and advised in a competent and professional manner. Every member of the Supervisory Board has the knowledge, skills, and professional experience needed to properly fulfill his or her duties and responsibilities. In addition, each member ensures he or she has sufficient time to carry out his or her duties. A maximum of two former members of the Management Board are permitted to be members of the Supervisory Board. The members of the Supervisory Board may not accept mandates for bodies of or advisory activities for significant competitors of the company.

With regard to its composition, while qualification remains the decisive criterion, the Supervisory Board strives to adequately reflect the international character and the various fields of core competences of the business model while considering diversity, in particular with regard to professional experience and expertise. In order to accommodate the international character of the company, the Supervisory Board should as a rule have no fewer than two international members. The single most important factor for nominating a member to the Supervisory Board is the candidate's qualifications, which is not dependent on the candidate's age. As a result, the Supervisory Board sees no benefit in introducing fixed age limits. As a rule, however, Supervisory Board members should not be older than 70 when elected. The Supervisory Board strives to adequately consider women in the diversity of its composition, with the specific target that no fewer than two women should be members of the Supervisory Board.

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

Furthermore, no fewer than five members of the Supervisory Board should be independent, as defined in Section 5.4.2 of the German Corporate Governance Code, with no fewer than two of such independent members representing the shareholders. Candidates who are likely to be confronted with an increased level of conflicts of interest should not be proposed for election by the annual general meeting. In general, a Supervisory Board member should not serve as a member for longer than twelve years. The Supervisory Board is convinced that such composition ensures an independent and efficient consultation and oversight of the Management Board. Except for the targeted female representation, the composition of the Supervisory Board of ZALANDO SE in fiscal year 2016 met the targets it had set itself in all respects.

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

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

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

AUDIT COMMITTEE

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

MEMBERS OF THE AUDIT COMMITTEE → 14
Lothar Lanz (chairperson until May 31, 2016 and thereafter member)
Kai-Uwe Ricke (chairperson since May 31, 2016 and previously deputy chairperson)
Lorenzo Grabau
Konrad Schäfers

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

REMUNERATION COMMITTEE

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

MEMBERS OF THE REMUNERATION COMMITTEE → 15
Lorenzo Grabau (chairperson)
Lothar Lanz (member since May 31, 2016)
Alexander Samwer
Beate Siert
Cristina Stenbeck (member until May 31, 2016)

NOMINATION COMMITTEE

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

MEMBERS OF THE NOMINATION COMMITTEE → 16
Lorenzo Grabau (chairperson and member from May 31, 2016 until January 5, 2017)
Lothar Lanz (chairperson and member since January 12, 2017)
Anders Holch Povlsen
Alexander Samwer
Cristina Stenbeck (chairperson and member until May 31, 2016)

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

01.5.5 MANAGEMENT BOARD AND SUPERVISORY BOARD SHAREHOLDINGS

As of the end of fiscal year 2016, the co-founders of the company and members of the Management Board Robert Gentz and David Schneider each held 1.85% of shares in the company. The Management Board member Rubin Ritter held less than 1% of shares. The Supervisory Board member Anders Holch Povlsen held 10.04% of shares at the end of fiscal year 2016. The other Supervisory Board members cumulatively held less than 1% of shares.

A report on the transactions conducted during the fiscal year 2016 by persons discharging managerial responsibilities is published on the ZALANDO SE website in the Investor Relations section.

zln.do/en-IR

01.5.6 TAKEOVER LAW DISCLOSURES PURSUANT TO SECTIONS 289 (4), 315 (4) HGB AND EXPLANATORY REPORT[14]

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

COMPOSITION OF ISSUED CAPITAL

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

RESTRICTIONS RELATING TO VOTING RIGHTS OR THE TRANSFER OF SHARES

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

SHAREHOLDINGS THAT EXCEED 10% OF VOTING RIGHTS

At the end of fiscal year 2016, Verdere S.àr.l. (Luxembourg) and Anders Holch Povlsen each held an indirect shareholding in ZALANDO SE that exceeded the threshold of 10% of voting rights. Information on the amount of the above-mentioned shareholding in the company can be found in Section 01.6.1 The Zalando Share – 2016 in Review on page 67.

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

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

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

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

According to Article 12 (5) of the Articles of Association, the Supervisory Board is entitled to make changes and additions to the Articles of Association that pertain to the wording only. Pursuant to Article 4 (3) and (4) of the Articles of Association, the Supervisory Board is authorized to adjust the wording of the Articles of Association to reflect the implementation of the increase of the registered share capital from authorized capital or after the term of the authorization has expired.

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

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

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

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

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

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

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

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

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

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

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

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

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

01.5.7 REMUNERATION REPORT[15]

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

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

The total remuneration is appropriate to the tasks and performance of each member of the Management Board. The criteria used to determine the appropriate level of remuneration is driven by each member's responsibilities and personal contribution, as well as the company's economic situation, performance and future development. The industry context, as well as the internal remuneration structure, are also considered.

Pursuant to the resolution passed at the company's extraordinary general meeting held on July 11, 2014, information on the individual remuneration of each member of the Management Board is not disclosed in accordance with sections 286 (5), 314 (3) Sentence 1 and 315a (1) HGB in conjunction with section 61 of the SE Regulation.

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

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

The salaries of the members of the Management Board are paid in monthly installments. The members of the Management Board as a group received annual salaries totaling EUR 0.6m in fiscal year 2016 (prior year: EUR 0.6m).

In addition, the members of the Management Board were entitled to non-cash payments (such as the use of company cars) and other benefits totaling EUR 0.05m in fiscal year 2016 (prior year: EUR 0.06m). Other benefits include reimbursement of standard expenses, such as travel expenses, contributions towards health insurance, and monthly gross amounts which correspond to the employer's contributions to the statutory pension and unemployment insurance.

SHARE-BASED PAYMENTS (LONG-TERM INCENTIVES)

No new option rights were granted to the Management Board in fiscal year 2016.

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

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

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

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

The options granted to the beneficiaries vest in tranches. The options vest if the beneficiary serves as a member of the Management Board of Zalando for the vesting period of the respective tranche. The last tranche of the SOP 2011 will vest in October 2018. Vested options are forfeited if the beneficiary leaves the group before the end of the respective vesting period. The beneficiaries have no claim to cash payment.

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

DEVELOPMENT OPTIONS 2011 → 17

	Number	Weighted average exercise price (in EUR)
Outstanding options as of Jan 1, 2015	**3,085,500**	**5.65**
Options granted during the reporting period	0	–
Options forfeited during the reporting period	0	–
Options exercised during the reporting period	355,300	5.65
Options expired during the reporting period	0	–
Outstanding options as of Dec 31, 2015	**2,730,200**	**5.65**
Options vested as of Dec 31, 2015	**1,720,400**	**5.65**
Outstanding options as of Jan 1, 2016	**2,730,200**	**5.65**
Options granted during the reporting period	0	–
Options forfeited during the reporting period	0	–
Options exercised during the reporting period	187,000	5.65
Options expired during the reporting period	0	–
Outstanding options as of Dec 31, 2016	**2,543,200**	**5.65**
Options vested as of Dec 31, 2016	**1,870,000**	**5.65**

The options issued by the company can be exercised as of the vesting date. The beneficiaries can exercise vested options for an unlimited period. The weighted average share value on the date of exercise of an option exercised in the reporting period 2016 amounted to EUR 30.93 (prior year: EUR 26.34).

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

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

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

DEVELOPMENT OPTIONS 2013 → 18

	Number	Weighted average exercise price (in EUR)
Outstanding options as of Jan 1, 2015	**9,817,500**	**15.63**
Options granted during the reporting period	0	–
Options forfeited during the reporting period	0	–
Options exercised during the reporting period	0	–
Options expired during the reporting period	0	–
Outstanding options as of Dec 31, 2015	**9,817,500**	**15.63**
Options vested as of Dec 31, 2015	**3,904,560**	**15.63**
Outstanding options as of Jan 1, 2016	**9,817,500**	**15.63**
Options granted during the reporting period	0	–
Options forfeited during the reporting period	0	–
Options exercised during the reporting period	0	–

→ 19

	Number	Weighted average exercise price (in EUR)
Options expired during the reporting period	0	–
Outstanding options as of Dec 31, 2016	**9,817,500**	**15.63**
Options vested as of Dec 31, 2016	**5,856,840**	**15.63**

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

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

OTHER NOTES

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

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

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

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

TOTAL COMPENSATION

The members of the Management Board were granted total remuneration of EUR 0.6m in fiscal year 2016 (prior year: EUR 0.7m).

BENEFITS → 20

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

The following table shows allocations for fiscal 2016 of fixed compensation, fringe benefits, one-year variable compensation and multi-year variable compensation – by reference year – as well as the expense of pension benefits. This table includes the actual figure for multiyear variable compensation granted in previous years and allocated in fiscal 2016.

ALLOCATION → 21

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

*) Exercise of options

REMUNERATION OF SUPERVISORY BOARD MEMBERS

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

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

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

Remuneration for fiscal year 2016 breaks down as follows:

SUPERVISORY BOARD REMUNERATION → 22

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

01.6 THE ZALANDO SHARE – 2016 IN REVIEW

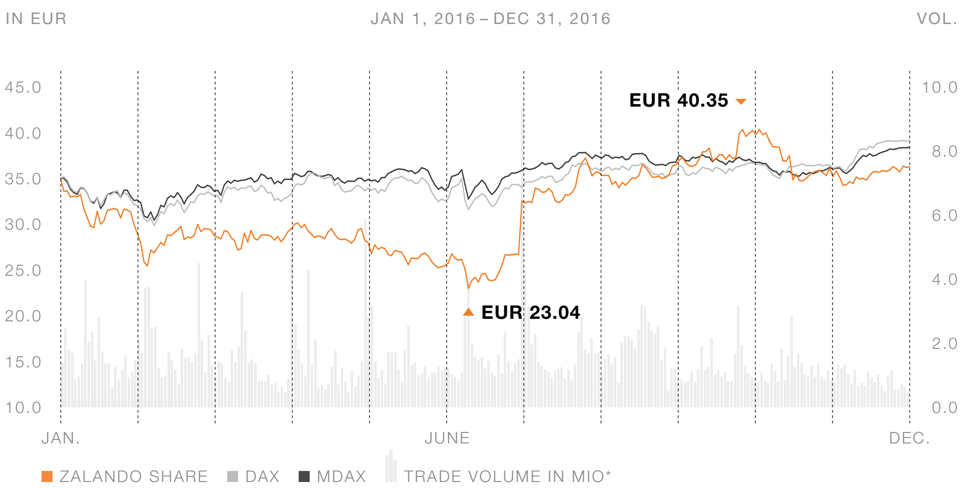
- Despite external market volatility, the Zalando share price remained stable
- Broad analyst coverage by 28 brokers
- Successful second annual general meeting on May 31, 2016

01.6.1 SHARE AND CAPITAL MARKETS DEVELOPMENT

In 2016, the development of international capital markets continued to be driven by the low-interest rate environment. The start of the year was marked by a downturn of international and German stock markets on concerns about the growth outlook of the Chinese economy. While the German index DAX recovered to 10,500 points, volatility remained until the unexpected result of the Brexit referendum on June 23, 2016 marked a sharp decline of 1,000 points for the DAX index over the following trading days. Nevertheless, capital markets of industrialized countries developed positively over the course of the summer, driven by globally supportive central bank policies. At the same time, future interest rate policy of the US and other central banks, as well as the US presidential election, were among frequently discussed topics on Frankfurt's trading floors. The surprising outcome of the US elections led to unforeseen movements in capital markets, particularly towards sectors likely to benefit from the change in government.

The Zalando share closed the year 2015 at an all-time high of EUR 36.40, but felt the overall market weakness in the first weeks of 2016 when the share price decreased to EUR 25.48 in early February. Thereafter, the share price recovered, followed by a slight downward movement after the release of the first quarter results. Following the Brexit vote in June, the Zalando share hit its annual low of EUR 23.04, but recovered in line with overall global equity markets. The positive share price development was further accelerated by the publication of the Q2 Trading Update on July 19 and the increase in full-year 2016 adjusted EBIT margin guidance resulting in a share

DEVELOPMENT OF THE ZALANDO SHARES, DAX AND MDAX → 10



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

price of EUR 32.55 at market close. The Zalando share reached its all-time high of EUR 40.35 on October 27, 2016 in light of the publication of the Q3 Trading Update that led to a further increase in full-year 2016 adjusted EBIT margin guidance. However, the outcome of the US elections triggered a sector rotation that put pressure on the entire e-commerce sector, including Zalando. At year-end, the share closed at EUR 36.29, slightly below the previous year's level. It slightly underperformed the DAX (–7.9%) and the MDAX (–5.9%). The market capitalization at year-end was EUR 8.9bn (basic).

THE ZALANDO SHARE → 23

Type of shares	Ordinary bearer shares with no par value ("Stückaktien")
Share capital	EUR 247,255,868
Total numbers of shares outstanding (Dec 31, 2016)	247,255,868
ISIN	DE000ZAL1111
WKN	ZAL111
Bloomberg	ZAL GR
Thomson Reuters	ZALG.F

STABLE SHAREHOLDER BASE

The shareholder structure of ZALANDO SE remained stable throughout the year. The free float decreased from 37.24% to 30.90%, mainly driven by additional stock purchases of existing shareholders: In March and June Baillie, Gifford & Co increased its shareholding to a total of 6.86% from previously 3.08%. Bestseller Handels B.V (Anders Holch Povlsen) also increased its shareholding in March from 9.35% to 10.04%. The inclusion of the Zalando share in several indices triggered the index-tracking fund Vanguard World to increase its position to a total of 3.02%, thereby exceeding the 3% threshold. The Zerena GmbH (Global Founders) reduced its shareholding from 9.92% to 8.77% in May.

30.90%

free float

SHARE PERFORMANCE → 24

Opening price on Jan 4, 2016	EUR 36.40
High 2016 (Oct 27)	EUR 40.35
Low 2016 (June 27)	EUR 23.04
Closing price on Dec 30, 2016	EUR 36.29
Performance 2016	−0.3%
Average daily trading volume 2016 (shares)*	1.5M
Average daily trading volume 2016 (EUR)*	EUR 48.8m

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

ANALYST COVERAGE AND STOCK INDICES

In 2016, the Zalando share was covered by 28 financial analysts from Germany and abroad, resulting in higher awareness of the Zalando share.

Broad analyst coverage

by 28 brokers

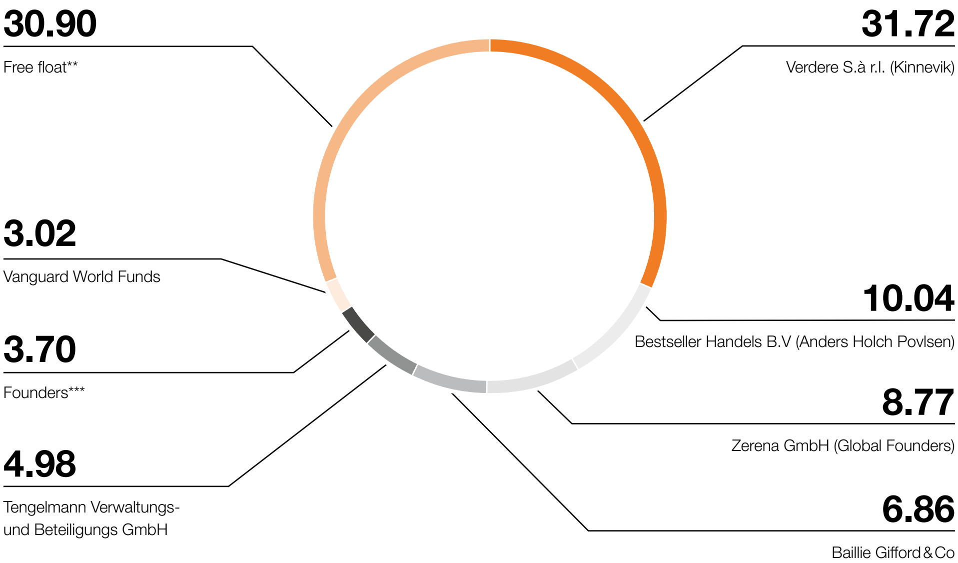
The Zalando share is listed in numerous important domestic and foreign indices. These include the German MDAX, which comprises the 50 listed companies in Germany following the DAX index, the broader European STOXX Europe 600 Index and the German Entrepreneurial Index GEX. The Zalando share is also listed in relevant industry indices such as the STOXX Europe 600 Retail Index and the Deutsche Börse Prime Retail Performance Index.

SUCCESSFUL SECOND ANNUAL GENERAL MEETING 2016

On May 31, 2016 ZALANDO SE hosted its second annual general meeting (“AGM”) post IPO. Those in attendance, representing 89.6% of the voting share capital, approved all the proposed resolutions put forward by the company’s Management Board and Supervisory Board. Resolutions included the authorization for granting subscription rights to shares and the authorization to issue Stock Appreciation Rights. During the subsequent Supervisory Board Meeting, Lothar Lanz, already member of the Supervisory Board, was elected as the new chairman replacing Cristina Stenbeck. Furthermore Kai-Uwe Ricke was elected as the new chairman of the audit committee.

SHAREHOLDER STRUCTURE AND FREE FLOAT AS OF DEC 31, 2016* → 11

IN %



*) Voting rights held directly or by a subsidiary. The overview reflects the notifications pursuant to Section 21 WpHG ("BaFin-notifications") and Section 26a WpHG (change in total voting rights) received by ZALANDO SE as of November 18, 2016.
**) Free float calculated as total less BaFin filings and founders' stake
***) Aggregate shareholding of the founders

ACTIVE COMMUNICATION WITH CAPITAL MARKETS

Proactive dialogue with investors and analysts is a key element in our external communication. As a result of our continuous interactions, we have established strong relationships which we aim to further deepen and expand.

Throughout the year 2016, the Management Board together with the SVP Finance and the Investor Relations department, spent 26 days visiting existing, and potential shareholders in the major European and North American financial hubs and participated in twelve industry and country-specific investor conferences. In addition, our Investor Relations activities included numerous meetings with individual investors in Berlin, as well as numerous video and telephone conferences. Moreover, interested investors and analysts had a chance to participate in our field trips to our fulfillment center in Erfurt, as well as guided tours through our fashion and tech hubs.

MAY 31, 2016

annual general meeting in Berlin

On March 22, 2016, our second Capital Markets Day took place, this time in our Berlin headquarters. This day has quickly turned into a well-established annual flagship event for investors and analysts. With around 70 international participants – both analysts and investors – the event was very well attended. In various presentations, the Management Board and senior management presented the platform strategy in great detail and discussed the development of the respective business units in depth. Other key topics included developments within technology and operations. The insights into strategic and overall relevant topics were finally rounded off by a visit to our fulfillment center in Erfurt.

zln.do/en-CMD

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.

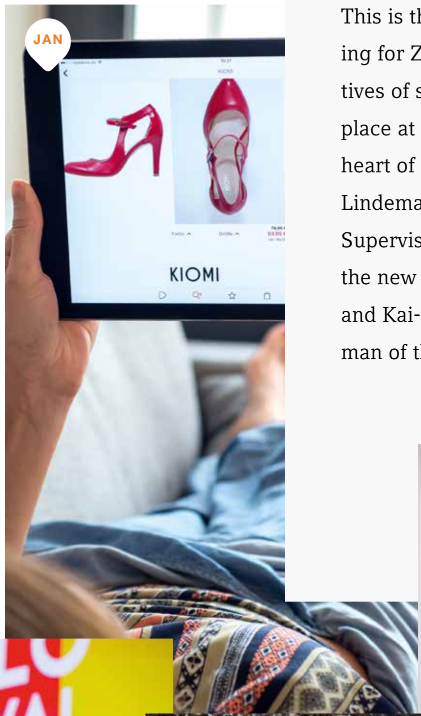
For any other information, please contact Birgit Opp, VP Corporate Finance and Investor Relations (investor.relations@zalando.de).

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

01.7 HIGHLIGHTS 2016

JAN
ZALANDO APP RELAUNCH

The revised Zalando app for iOS and Android creates an even stronger connection between user-friendliness, inspiration, and entertainment. The new design focuses on a simple, attractive and, above all, mobile-specific shopping experience. Exclusive features such as videos, editorial content, and scrollable lookbooks for the fashion brands take the user experience with the redesigned Zalando app far beyond the simple search for products.

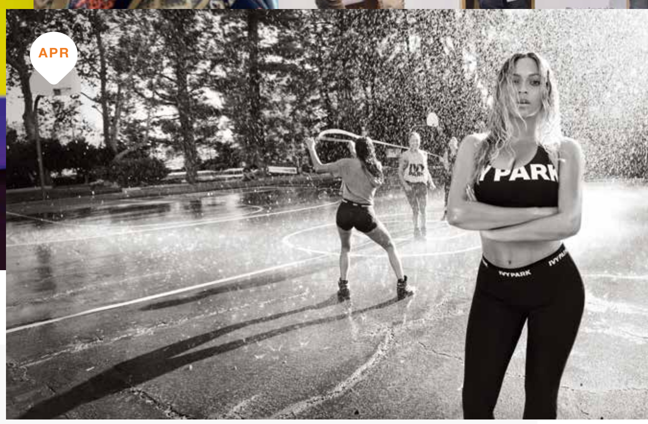


MAY
WELCOME TO ZALANDO PLATFORM

This is the theme of the annual general meeting for Zalando shareholders and representatives of shareholders’ associations that takes place at Umspannwerk Alexanderplatz in the heart of Berlin on May 31. Jørgen Madsen Lindemann is elected as a new member of the Supervisory Board. Lothar Lanz is chosen as the new chairman of the Supervisory Board, and Kai-Uwe Ricke is named the new chairman of the audit committee.

MAR
HELLO FESTIVAL

The Hello Festival that takes place between March 18 and March 20, 2016, in the Arena Berlin, is dedicated to the sustainable integration of refugees into society. Spanning three days, it offers a varied program that focuses on information, involvement and encounters, presents solutions that have proven successful on the international stage, and brings together people from all over the world in Berlin.



APR
IVY PARK COLLECTION

Zalando starts distributing Beyoncé’s activewear brand Ivy Park as a leading partner on April 14. This involves an exclusive TV spot that was individualized for different European markets, as well as further comprehensive rollout activities. Zalando has created a digital hub and asks fans to share the place where they feel strong and confident, using the hashtag #MYPARK. The independent brand Ivy Park by Beyoncé and Sir Philip Green complements Zalando’s spring/summer campaign “Fashion x Sport”.

JUN

START OF TEST PILOT FOR OFFLINE CONNECTION

In June, Zalando integrates the first brick-and-mortar store of an international brand partner in its platform – the adidas Performance Store on Tauentzienstrasse in Berlin. Products from the store are available via Zalando for the first time and can be delivered to customers in Berlin within a few hours. For Zalando, this strategic partnership marks the next step on the way to integrated commerce, which satisfies the increasing demands of online and mobile-oriented customers.

SEPT

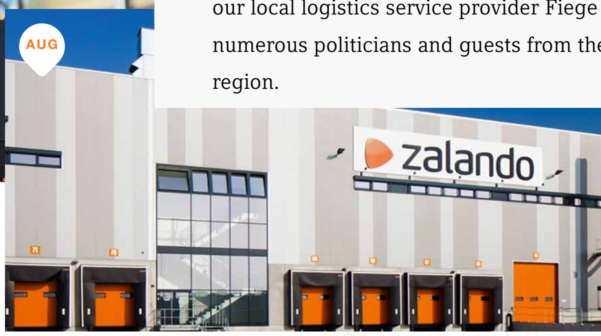
BREAD&BUTTER

Zalando reinvents Bread&Butter and turns the former trade show into a trend show for all those who love fashion, music, and good food. The theme of the first Bread&Butter by Zalando that takes place on the premises of the Arena in Berlin from September 2 to September 4 is “NOW”. The event brings together the hottest brands and live acts and is followed live on social media by 6.9 million fans.

NOV

GROUNDBREAKING CEREMONY IN POLAND

In order to provide even better service to customers all over Europe in the future, Zalando is further expanding its international logistics network. On November 18, we lay the symbolic foundation stone for the new fulfillment center in Gryfino, near Szczecin, together with our local logistics service provider Fiege and numerous politicians and guests from the region.



AUG

TEST OPERATION STARTED IN LAHR

On August 9, the first parcel makes its way from the fulfillment center in Lahr to one of almost 20 million Zalando customers in Europe. Construction of Zalando’s fourth fulfillment location in Germany, which will span a total of 130,000 square meters, has been in progress on the former airport grounds since October 2015. The first construction stage was completed in July 2016, and for the moment, a small team is using the site for adjusting processes and training new employees.

DEC

HACK WEEK

Between December 19 and December 22, more than 1,600 Zalando technology employees work on their own ideas and projects in Berlin, Dortmund, Dublin and Helsinki. It is the perfect platform for developing prototypes and experimenting with new technologies. The best projects are awarded prizes in ten categories, including for the best innovation and the improvement of corporate responsibility.

02

COMBINED MANAGEMENT REPORT

02.1 BACKGROUND TO THE GROUP

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

02.1.1 BUSINESS MODEL

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

Skip to p. 76

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

G4-3
G4-4
G4-5
G4-6
G4-8
G4-13

Further information in the Zalando City Guide
zln.do/en-city-guide

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 its ultimate parent company, ZALANDO SE, based in Berlin, Germany, which bundles all management functions and generates nearly 100% of group revenues. In addition to the parent company, Zalando comprises 32 subsidiaries that operate in the areas of fulfillment, customer service, product presentation, advertising, marketing, and in-house developed private labels for ZALANDO SE. ZALANDO SE and its subsidiaries represent the entire value chain of an online retailer. ZALANDO SE has full control over all subsidiaries, either indirectly or directly.

G4-7
G4-17

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

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

Further information
Corporate Governance Report
p. 49

GROUP SEGMENTS

ZALANDO SE's internal reporting structure is primarily based on a sales channel-related perspective. The Management Board monitors the development of the business for the main sales channel Zalando shop by breaking it down geographically into the DACH regions (Germany, Austria and Switzerland) and Rest of Europe. All other sales channels are grouped under the Other segment, which mainly comprises revenues generated by the Zalando Lounge and outlet sales channels and the new platform initiatives.

02.1.3 STRATEGY AND OBJECTIVES OF THE GROUP

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

Skip to p. 78

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

Further information
Outlook
p. 113

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

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

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

INVESTMENT IN CONSUMER PROPOSITION

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

Corporate strategy

INVESTMENT IN SUPPLIER PROPOSITION

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

INVESTMENT IN INFRASTRUCTURE

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

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

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

02.1.4 CORPORATE RESPONSIBILITY

Skip to p. 81

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

zln.do/en-do

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

Additional information regarding our sustainability strategy, management and engagement are provided in the separate Section 01.4 Corporate Responsibility.[16]

02.1.5 MANAGEMENT SYSTEM

Further information
Report on Economic Position
p. 80

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.

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

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

- **Ratio of mobile site visits to total site visits:** Users are making greater use of mobile devices to access the internet. In our effort to offer customers the opportunity to enjoy high quality shopping on their mobile devices, Zalando continues to develop and refine its websites and apps. As a result, the ratio of website visits from mobile devices to the total number of website visits increased by around 8.5 percentage points in 2016, rising from 57.1 in 2015 to 65.6.
- **Number of active customers:** The Zalando group measures its success by the number of active customers. Each customer that has placed at least one order within the last year (based on the reporting date) is considered active. Compared to the prior year, the number of active customers increased by 2 million, rising from 17.9 million to 19.9 million in 2016.
- **Number of orders:** In addition to revenue, the number of orders placed is a key performance indicator for the management of the group. This indicator is monitored independently from the value of merchandise and is a key driver of growth. In 2016, the number of orders placed increased from 55.3 million in 2015 to 69.2 million.
- **Average number of orders per active customer:** The average number of orders placed by active customers during the last twelve months totaled 3.5 as of December 31, 2016 (prior year: 3.1).
- **Average basket size:** Similar to the number of orders placed, the average basket size has a direct effect on the revenue of the group. It is also an important indicator of the trust customers place in the company. The average basket size slightly decreased in fiscal year 2016 from EUR 67.8 to EUR 66.6.

02.1.6 RESEARCH AND DEVELOPMENT

Zalando develops key components of its software internally. This ensures that the software is aligned with the operating processes in the best possible way. For example, order and fulfillment processes in particular are supported using internally developed software. Important technical developments in 2016 included fashion store technical enhancements, Checkout Rebuild, Order Management Service, Merchant Inventory, A/B Testing & Personalization Service, Same Day Delivery, Fulfilment by Zalando, Ramp-up fulfillment centers Lahr and Stradella, Zalon Apps, and many more.

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

Development work at Zalando is performed by teams of developers which are organized by the respective function/line: e.g. fashion store, Smart Logistics, Payments, Brand Solutions, etc.

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

Research costs were immaterial.

02.2 REPORT ON ECONOMIC POSITION

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

02.2.1 MACROECONOMIC AND SECTOR-SPECIFIC ENVIRONMENT

The mega-trend towards online shopping continued in 2016: The European online retail sector[17] rose by 13.6% in 2016, outperforming the general retail industry which grew by only 2.6%. The European fashion retail sector[18] closed the year with a trading volume of around EUR 425bn, up by 0.9% nominally, while the online fashion market rose by 9.1% to EUR 51bn, compared to the prior year.

www.euromonitor.com

The German market posted figures consistent with the European landscape, with the overall retail industry[19] growing at 2.5% while online retail sales rose by 11.6% in 2016. Trading volumes declined by 0.2% in 2016 after a number of years of stagnant growth, reflecting adverse weather conditions: A mild January and a cold March, moving into a rainy summer and warm fall was only partly alleviated by increasing sales in the fourth quarter[20]. Nevertheless, online fashion retailer increased sales by 7.4% in 2016, to a market value of around EUR 12.3bn[21].

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

- Technological advancements are the key drivers behind the second wave of e-commerce that will spur further growth of the online fashion business. The market share of internet fashion retail is expected to continue to grow at the expense of traditional brick-and-mortar retailers.
- Europe remains a very attractive fashion market with a high concentration of affluent customers. In our major markets in Western Europe[22], per capita spending on fashion amounted to EUR 780 in 2016, more than anywhere else in the world. Coupled with high population density, Western Europe leads with the highest spending per square kilometer on fashion, estimated at EUR 88.1k, compared to EUR 15.5k worldwide. Spending per square kilometer is an important indicator for online retailers, as it allows for faster delivery, at lower cost.
- Average gross margins for online fashion retailers range between 40% and 60%[23], considerably more attractive than average margins in other online product categories, such as electronics.

17) Euromonitor, Europe excl. Russia
18) Euromonitor, Europe excl. Russia
19) Euromonitor, Germany
20) Textilwirtschaft
21) Euromonitor, Germany
22) Euromonitor, Europe excl. Russia
23) Company information, average gross margins of selected publicly listed e-commerce companies in 2014 including Asos, Yoox and Boohoo based on publicly available information.

— The increased penetration of mobile devices and their extended range of applications have been a key driver for the strong growth in online retail trade, including online fashion. Smartphones and tablets provide access anytime and nearly anywhere, and consumers increasingly use these devices to shop for fashion. Forecasts for mobile commerce[24] illustrate that this trend is likely to continue, expecting an average annual growth rate of roughly 15.3% for the next five years.

02.2.2 BUSINESS DEVELOPMENT

Skip to p. 84

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

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

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

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

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

24) Euromonitor, Western Europe

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

Further information in the Zalando City Guide zln.do/en-b-and-b

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

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

Further information in the Zalando City Guide zln.do/en-partner-services

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

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

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

Further information The Zalando Share – 2016 In Review p. 67

02.2.3 ECONOMIC SITUATION

FINANCIAL PERFORMANCE OF THE GROUP

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

CONSOLIDATED INCOME STATEMENT

→ 25

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

Further information
Consolidated Statement of Comprehensive Income
p. 123

OTHER CONSOLIDATED FINANCIAL INFORMATION

→ 26

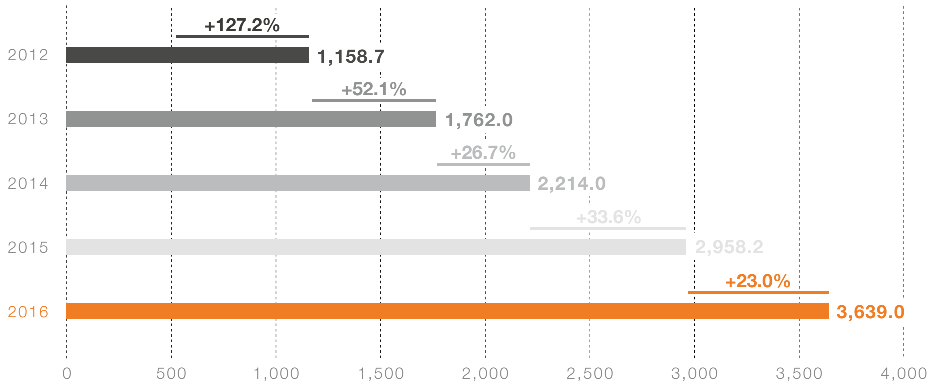
IN EUR M	JAN 1 – DEC 31, 2016	JAN 1 – DEC 31, 2015	Change
EBIT margin (as % of revenue)	5.7%	3.0%	2.7pp
Adjusted EBIT (excl. equity-settled share-based payments and non-operating one-time effects)	216.3	107.5	108.8
Adjusted EBIT margin (as % of revenue)	5.9%	3.6%	2.3pp
EBITDA	255.3	123.8	131.5
Adjusted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

DEVELOPMENT OF REVENUE

ANNUAL REVENUE GROWTH (2012–2016)

→ 12

IN EUR M

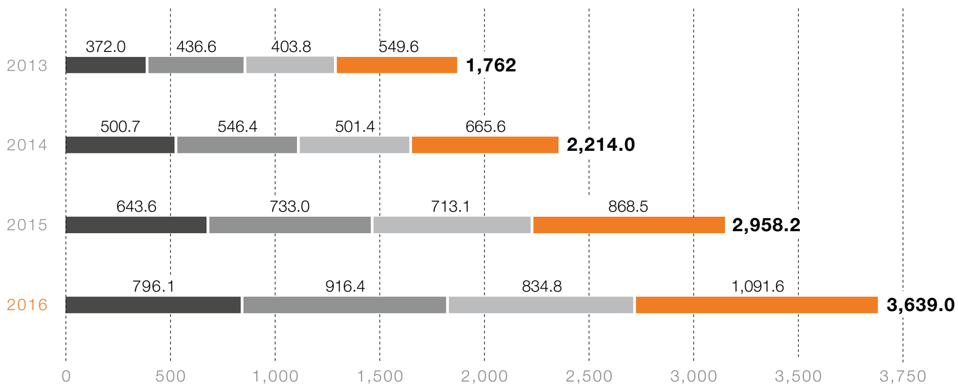


In 2016, Zalando increased its revenue by EUR 680.8m or 23% from EUR 2,958.2m to EUR 3,639.0m.

REVENUE BY QUARTER (2013–2016)

→ 13

IN EUR M



The variance in revenue over the course of the year reflects the seasonality of the business. Typically, the fall and winter collections are sold at higher prices than the spring and summer goods. This means that revenue levels tend to be higher in the second half of the fiscal year than in the first half. In addition, the second and fourth quarters tend to be stronger than the first and third quarters, as they do not contain the sale periods that are typically towards season end. At EUR 1,091.6m, group revenue in the fourth quarter was up 25.7% on the comparable period of the prior year (Q4 2015: EUR 868.5m). It was the first time that Zalando broke the one billion-euro barrier in a single quarter, a clear result of our customer focus.

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

Skip to p. 87

KEY PERFORMANCE INDICATORS

→ 27

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

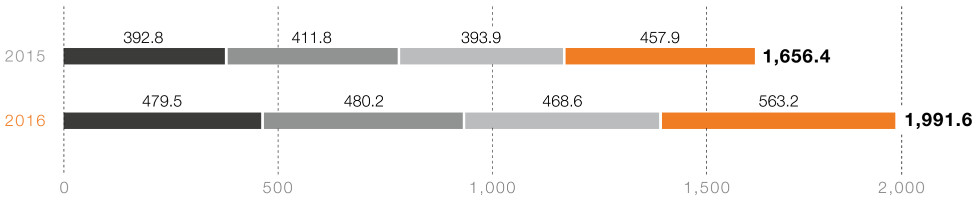
*) For an explanation of the performance indicators please refer to the Glossary.

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

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

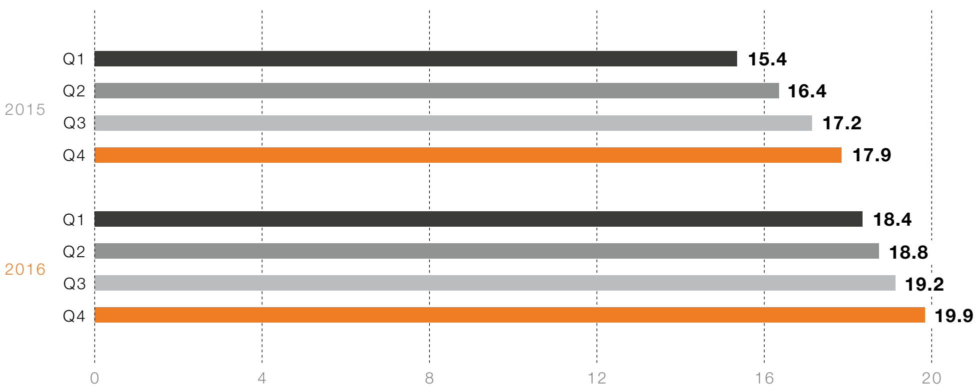
SITE VISITS BY QUARTER (2015 – 2016) → 14

IN M



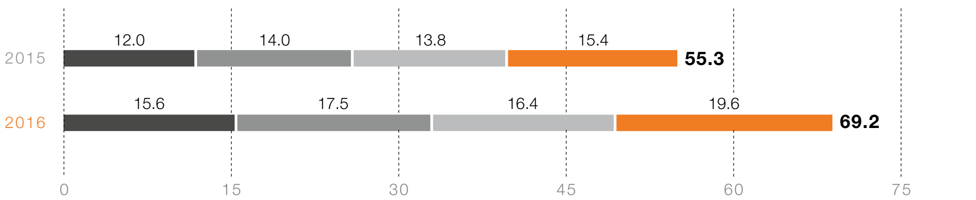
NUMBER OF ACTIVE CUSTOMERS BY QUARTER (2015 – 2016) → 15

IN M



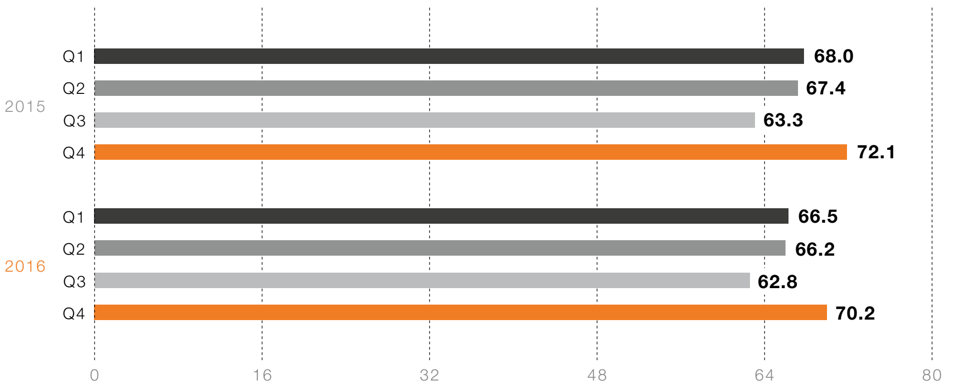
NUMBER OF ORDERS BY QUARTER (2015 – 2016) → 16

IN M



AVERAGE BASKET SIZE BY QUARTER (2015 – 2016) → 17

IN EUR



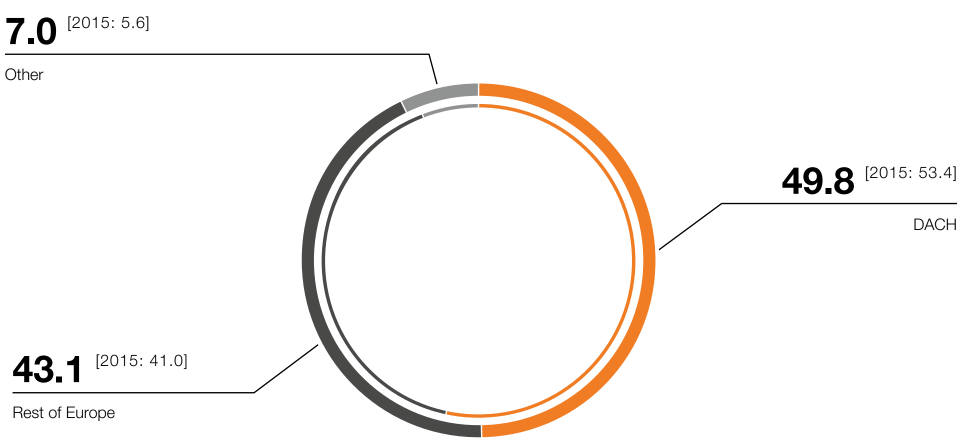
Zalando is profiting from a strong increase in active customers thanks to the larger assortment and the ease of mobile access to the offering. The close cooperation between Zalando and fast fashion brands, for example Ivy Park and Topshop, has helped raise the popularity of Zalando in the fashion sector.

Revenue by segment breaks down as follows:

Skip to p. 88

REVENUE BY SEGMENT → 18

IN %



In fiscal year 2016, DACH countries generated around half of the total annual revenue. At the same time, revenue recorded in the Rest of Europe and Other segments increased significantly, also contributing strongly to the overall revenue growth.

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

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

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

DEVELOPMENT OF EBIT

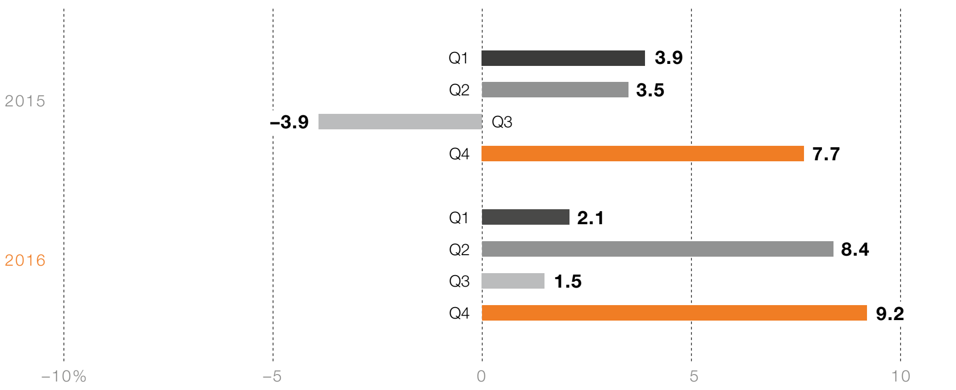
The group recorded an EBIT of EUR 207.0m in 2016 (prior year: EUR 89.6m) which corresponds to an EBIT margin of 5.7% in 2016 (prior year: 3.0%) and represents an improvement of 2.7 percentage points. The strong EBIT margin is a result of a year-on-year improvement across major operating cost lines, especially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

Skip to p. 94

EBIT MARGIN BY QUARTER (2015 – 2016)

→ 19

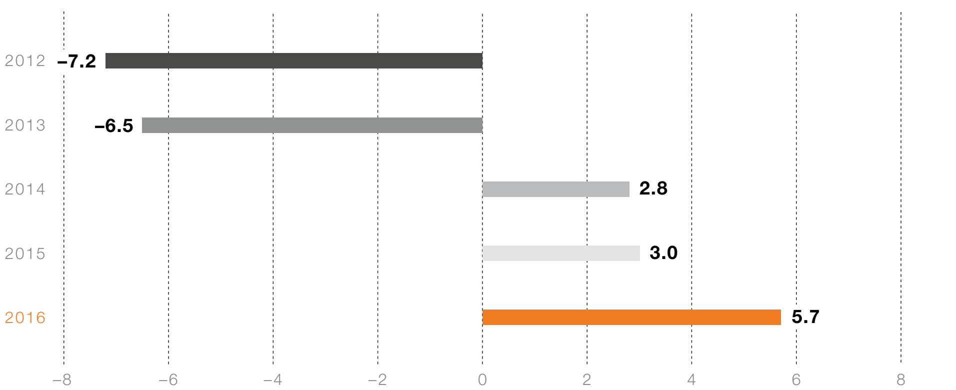
IN %



YEARLY EBIT MARGIN (2012 – 2016)

→ 20

IN %

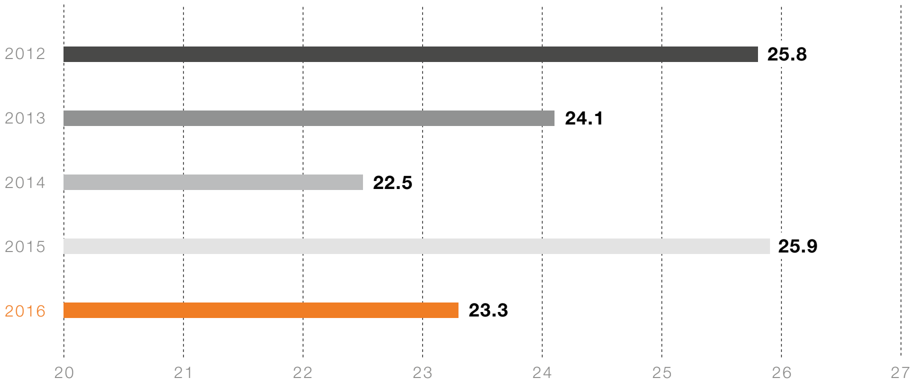


FIVE-YEAR SUMMARY OF COST ITEMS (NON-ADJUSTED)

FULFILLMENT COSTS (2012 – 2016)

→ 21

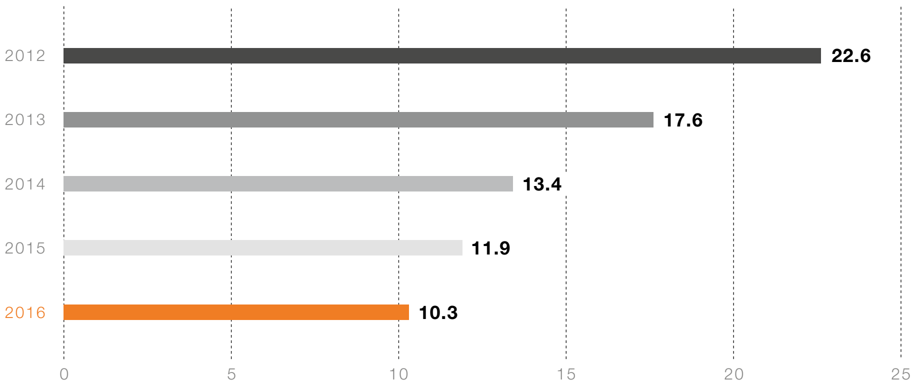
IN % OF REVENUE



MARKETING COSTS (2012 – 2016)

→ 22

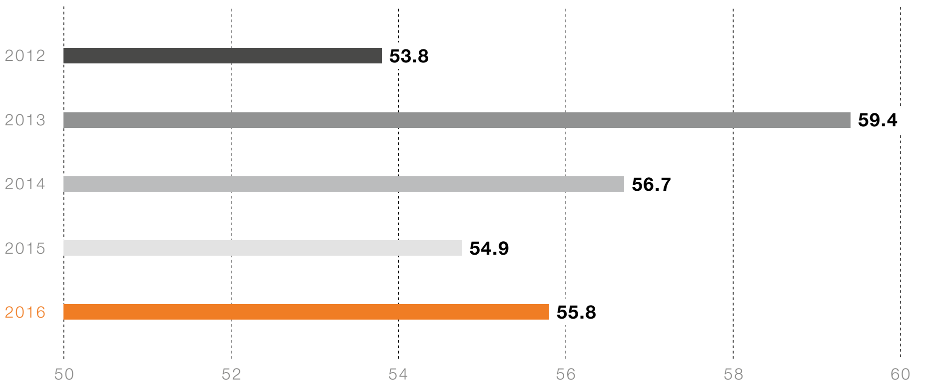
IN % OF REVENUE



COST OF SALES (2012 – 2016)

→ 23

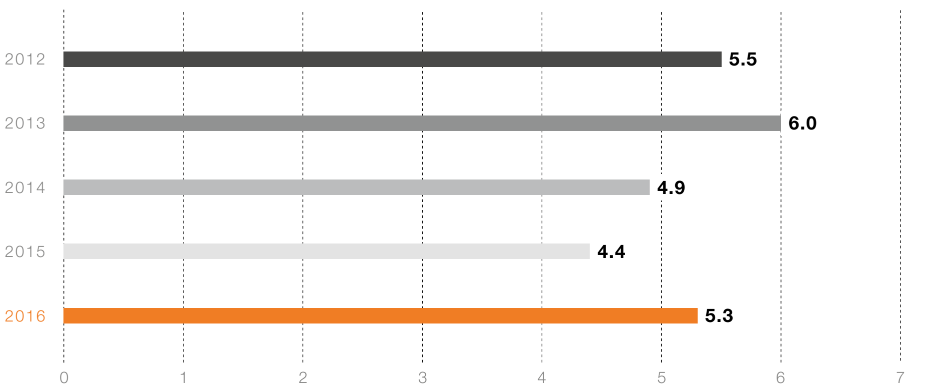
IN % OF REVENUE



ADMINISTRATIVE EXPENSES (2012 – 2016)

→ 24

IN % OF REVENUE



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

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

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

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

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

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

ADJUSTED EBIT

In order to assess the operating performance of the business, Zalando management also considers adjusted EBIT and the adjusted EBIT margin before expenses for equity-settled share-based payments and potential further non-operating one-time effects.

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

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

SHARE-BASED COMPENSATION EXPENSES PER FUNCTIONAL AREA → 28

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

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

RESULTS BY SEGMENT

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

CONSOLIDATED SEGMENT RESULTS → 29

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

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

SHARE-BASED COMPENSATION EXPENSES PER SEGMENT

→ 30

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

NON-OPERATING ONE-TIME EFFECTS PER SEGMENT

→ 31

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

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

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

Corporate strategy

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

ADJUSTED EBIT BY SEGMENT

In order to assess the operating performance of the segments, Zalando management also considers EBIT and EBIT margin before expenses for equity-settled share-based payments and potential non-operating one-time effects. The DACH segment generated an adjusted EBIT margin of 12.5% in 2016. Compared to the prior year, the adjusted EBIT margin increased by 6.0 percentage points.

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

FINANCIAL POSITION

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

Skip to p. 95

CONDENSED STATEMENT OF CASH FLOWS

→ 32

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

Further information Consolidated Statement of Cash Flows p. 128

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

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

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

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

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

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

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

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

CREDIT FACILITY

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

NET ASSETS

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

i
Skip to p. 99

ASSETS → 33

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

Further information Consolidated Statement of Financial Position p. 124

EQUITY AND LIABILITIES → 34

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

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

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

Key components of the software used by the group are developed internally. This ensures that the software is aligned with the operating processes in the best possible way. For example, order and fulfillment processes in particular are supported using internally developed software. In fiscal year 2016, additions related to capitalized development costs of EUR 57.7m (prior year: EUR 23.1m), of which EUR 36.4m is contained in prepayments (prior year: EUR 9.2m).

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

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

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

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

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

Further information
Consolidated Statement of Comprehensive Income
p. 123

OVERALL ASSESSMENT

The Management Board views the business development in 2016 very positively. Zalando consciously focused on growth opportunities, made key strategic investments, and yet remained clearly profitable in the process. The Zalando group increased its revenue markedly in fiscal year 2016 and won additional market share. The EBIT margin increased substantially as a result of the strong performance. In view of the high operating leverage, Zalando continued to push forward with growth investments in its consumer proposition and platform initiatives.

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

02.2.4 EMPLOYEES

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

Further information
Corporate Responsibility
p. 20

Additional information regarding our sustainability strategy is provided in the separate Section 01.4 Corporate Responsibility.[25]

25) The sustainability report 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

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

G4-14
DMA Anti-Corruption

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 setting up and operating an effective risk and opportunity management system for the Zalando group. This is ensured through the comprehensive and standardized management of all key risks and opportunities.

Zalando created a separate department to identify these at an early stage and to analyze, manage, monitor, and counteract them with appropriate measures. The Governance, Risk & Compliance (GRC) department continuously develops risk management instruments and the methodology.

The basis for successful risk management is group-wide standards for systematically handling risks and opportunities. These standards are defined in the GRC Manual and put into force by the Management Board. The GRC function coordinates the defined core process (GRC cycle), which ensures standardized procedures to assess, analyze, and report on risks and the management measures implemented. This ensures that risks and opportunities are documented throughout the company using a uniform method. The GRC cycle is designed to support decision-making by providing consistent, comparable, and transparent information.

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

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

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 of the applicable departments.

SYSTEM OF INTERNAL FINANCIAL REPORTING CONTROLS

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

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

02.4.3 RISK REPORTING AND METHODOLOGY

All risks identified are quantified based on their probability of occurrence and their potential impact and entered in the risk catalog (risk matrix). The probability assessment is based on a time horizon of one year after the assessment date.

Skip to p. 100

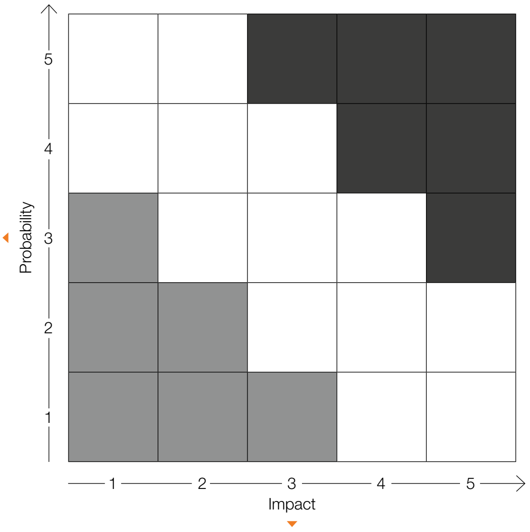
The impact assessment is conducted either on a quantitative scale (preferred) or a qualitative scale (alternatively if risks cannot be quantified or qualitative outweigh quantitative aspects). Quantitative classes are based on a scale relating to the potential financial impact on profit (EBIT).

Qualitative classes are based on criteria considering the impact on the company's reputation or the effect of criminal prosecution (with special focus on compliance risks). The risks are presented net, meaning the risk-minimizing measures implemented are considered in the scoring of risks.

Risks are positioned in the risk matrix using the following approach:

PROBABILITY OF OCCURENCE (WITHIN THE FOLLOWING YEAR) → 35

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%



Skip to p. 108

QUALITATIVE IMPACT (ALTERNATIVE) → 36

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

QUANTITATIVE IMPACT (PREFERRED) → 37

Class	Loss Amount
1	EUR 0.075m–EUR 0.2m
2	EUR 0.2m–EUR 1.5m
3	EUR 1.5m–EUR 10m
4	EUR 10m–EUR 75m
5	> EUR 75m

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

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

02.4.4 OVERVIEW OF CURRENT RISKS AND OPPORTUNITIES

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

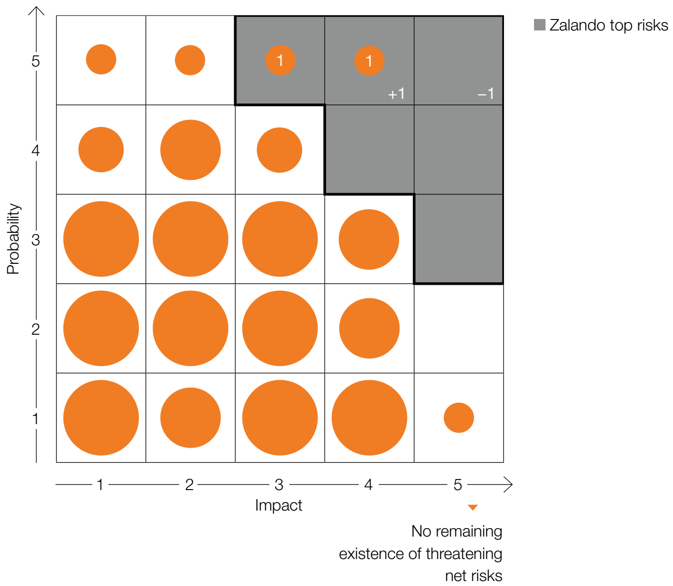
There are currently no net risks assessed that would jeopardize the company's ability to continue as a going concern. Nevertheless, we deem two risks to be significant (top risks described below).

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

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

NUMBER OF NET RISKS

→ 25



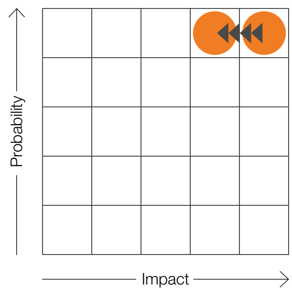
RISKS FROM BAD DEBT LOSS / EXTERNAL FRAUD (FOCUS ON PAYMENT TRANSACTIONS IN THE RETAIL BUSINESS)

The default risk is the risk that customers do not fulfill their contractual obligations and receivables remain unpaid. This can be the result of customers' payment habits or financial situation, or can be the result of fraud. An increase in fraudulent activities may also lead to an increase in bad debts. This risk is generally heightened for e-commerce companies that offer invoices as a payment method.

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

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

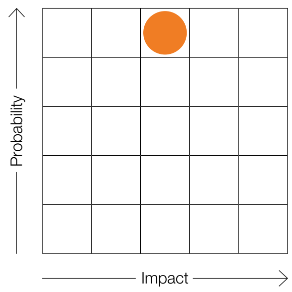
We closely monitor future trends and continuously improve the collection processes. As a result of the improved countermeasures, the ratio of bad debt compared with revenue was reduced for 2016.



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

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

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



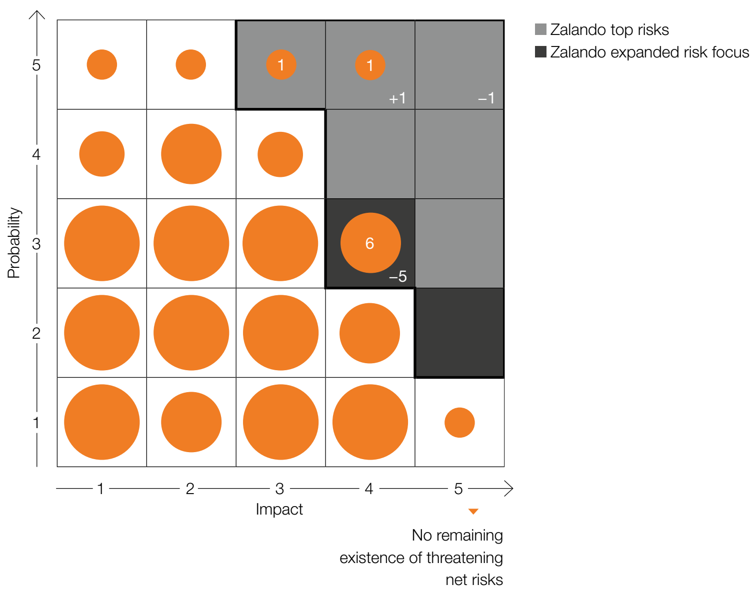
Probability: very high
Impact: medium

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

EXPANDED RISK AND OPPORTUNITY AREA

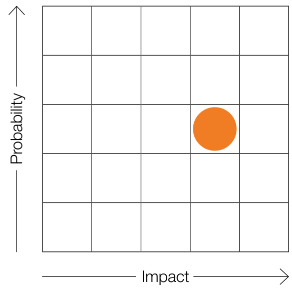
Risks and opportunities delineated by the dark grey margin as shown in the matrix are considered to be significant risks due to the combination of a certain level of probability and a certain level of impact. The amount of significant risks was reduced from twelve to six compared with the fiscal year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

NUMBER OF NET RISKS → 26



RISK OF STRIKE

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



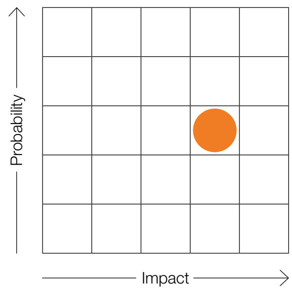
Probability: medium
Impact: high

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

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

RISKS FROM INACCURATE FORECASTS AND PLANNING WITHIN CATEGORY MANAGEMENT

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



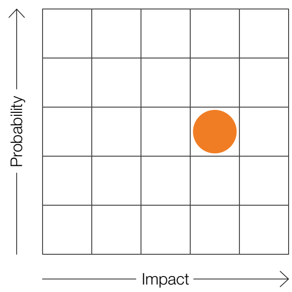
Probability: medium
Impact: high

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

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

RISKS OF MISSING MARKET OPPORTUNITIES DUE TO INSUFFICIENT BRANDING OF PRIVATE LABELS

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

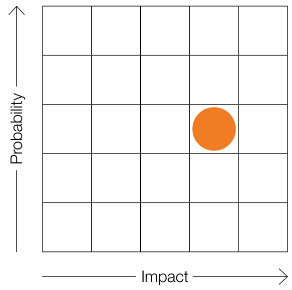


Probability: medium
Impact: high

The respective brand teams allocate appropriate items selected from the entire product range to each brand to create a unique brand image. To enhance the marketing activities for the various brands appropriately, targeted customer analyses were performed to support the associated decision-making. Moreover, there is daily communication between the marketing teams and content departments regarding core brands on social media. In addition, Zalando has established dedicated brand shops for individual private labels included in the Zalando online presences.

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

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



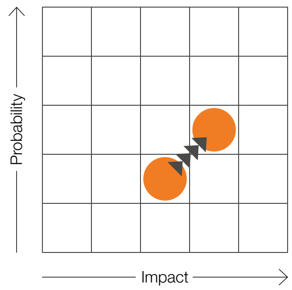
Probability: medium
Impact: high

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

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

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

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



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

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

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

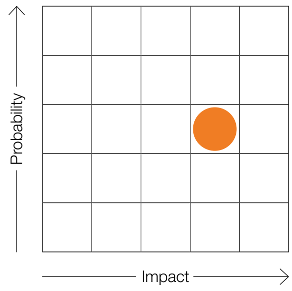
For the triggering events mentioned above, Zalando has initiated the following measures.

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

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

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

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



Probability: medium
Impact: high

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

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

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

MITIGATED RISKS AND OPPORTUNITIES

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

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

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

FINANCIAL RISKS

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

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

COUNTERPARTY RISK

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

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

LIQUIDITY RISK

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

CURRENCY AND INTEREST RATE RISK

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

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

Forward contracts are recognized as cash flow hedges if the conditions of hedge accounting are fulfilled. Once the hedged item has been realized as a cash flow hedge, the forward exchange contracts are used as fair value hedges to compensate for market value fluctuations of the outstanding trade receivables and trade payables and similar liabilities denominated in foreign currency. Forward exchange contracts are concluded with a term not exceeding 18 months. Derivative financial instruments are concluded and processed in accordance with internal guidelines that set out binding rules for the scope of action, responsibilities, reporting and controls.

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

The effects are analyzed on a regular basis. For example, if the euro had appreciated by 5% against the foreign currencies as of December 31, 2016, earnings before taxes would have been EUR 5.8m lower (prior year: EUR 5.4m). If the euro had depreciated 5% compared with the exchange rate as of December 31, 2016, earnings before taxes would have been EUR 6.4m higher (prior year: EUR 6.0m). The reserve for derivatives in group equity would have been EUR 34.6m higher (prior year: EUR 11.8m higher) if the euro had appreciated 5% compared with the exchange rate as of December 31, 2016. This reserve would have been EUR 38.2m lower (prior year: EUR 13.1m lower) if the euro had depreciated 5%.

MARKET OPPORTUNITIES AND GENERAL OPPORTUNITIES

MACROECONOMIC DEVELOPMENT

Skip to p. 114

The European Commission projects 2017 eurozone growth of 1.5% and EU growth of 1.6%. Private consumption is expected to be one of the main drivers of growth during the forecast period. Labor market gains across important European economies will also contribute to an increase of disposable income in real terms[26]. The World Bank's forecast[27] is also optimistic, with growth in the region predicted to accelerate to 2.7% on average in 2017–19, driven by a recovery in commodity-exporting economies and improved confidence. This outlook is predicated on a continued, but modest, recovery in commodity prices and easing geopolitical tensions.

Notwithstanding this, the UK "leave" vote (Brexit) has raised the level of uncertainty. Although the market reaction to the Brexit shock was reassuringly orderly, the ultimate impact remains unclear, as the fate of institutional and trade arrangements between the United Kingdom and the European Union is uncertain[28]. With regards to the surge in the number of asylum seekers and refugees, the impact appears moderate from a purely macroeconomic perspective. In the medium to long term, the cost of failed integration, socially and politically, would potentially be markedly more important[29].

In Germany, growth momentum is expected to be maintained[30]. The solid labor market, resilient exports and booming construction investment are expected to provide a boost to growth and drive private consumption. These developments give Zalando the opportunity to capitalize on a potentially favorable consumer climate arising from the growing economy and further reinforce its market position and increase revenue.

Corporate strategy

GROWING FASHION MARKET IN EUROPE

European online fashion sales[31] amounted roughly to EUR 51bn in 2016, making up 11.9% of all fashion retail. While the overall market for fashion in Europe (excluding Russia) remained virtually unchanged between 2011 and 2016, online fashion sales grew at a considerably faster rate with average annual growth (CAGR) of approximately 13.4% during the past 5 years. This trend is forecast to continue, as the percentage of people in the overall population who became familiar with digital technology at a young age will continue to rise.

Europe is a highly attractive fashion market with concentrated wealth and a high population density. These factors work to the advantage of online fashion sales.

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

The online retail market in Europe reported revenue totaling EUR 263.6bn in 2016, with a CAGR of 15.6% since 2011. While the online share of retail trade in the United States came to 10.5% in 2016, the online share of retail trade in Zalando's target market, Europe, rose from 4.2% in 2011 to 7.8% in 2016.[32]

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

26) European Commission, Fall 2016 Economic Forecast
27) World Bank, Global Economic Prospects, January 17
28) International Monetary Fund, World Economic Outlook
29) European Commission, An Economic Take on the Refugee Crisis
30) European Commission
31) Euromonitor, Europe excl. Russia
32) Euromonitor International

the group in a favorable position to further expand its revenue and market share. Targeted marketing activities will complement these efforts and help to increase brand awareness, win new customers, and retain existing ones for the long term. Most importantly, the strategic realignment to move towards a platform business model will create new opportunities for growth. It is envisaged that the platform business model brings together different fashion stakeholders, which will in turn help to enhance selection, expand inspiration channels, and improve convenience services. Moreover, Zalando can continue to exploit the high online market potential for European fashion through its presence, which now extends to 15 European countries, and the constant expansion of its own product range.

MOBILE COMMERCE

Mobile devices have made a considerable contribution to the strong growth in online retail trade. This also applies to fashion sales, as customers have access to fashion products at any time and from virtually anywhere. Retail sales generated by mobile devices have grown strongly in Western Europe, from roughly EUR 9.3bn in 2012 to almost EUR 62.8bn in 2016. It is anticipated that this revenue will grow at an annual average growth rate of 15.3% to reach EUR 128bn in 2021.[33]

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

Further information in the Zalando City Guide zln.do/en-mobile

SCALABLE LOGISTICS

Zalando continues to improve the customer experience in its markets by extending its fulfillment capabilities. The scalable logistics infrastructure is currently composed of four fulfillment centers in Brieselang, Erfurt, Lahr, and Mönchengladbach, which are strategically positioned within Germany to efficiently supply customers throughout Europe. The construction of the fulfillment center in Lahr is still ongoing, and the first manual operations have already commenced. A fifth fulfillment center in Szczecin, Poland is currently under construction. It will cover 130,000m² and is expected to start operations in fall 2017. The company's first satellite warehouse in Stradella, Italy, which started its operations in early 2016, already fulfills 70% of Italian orders. Zalando will start operations at another satellite warehouse close to Paris, France, in the first quarter of 2017. An additional function-specific fulfillment center, operated by service providers, was opened in Peine, Germany, as the central warehouse for private labels.

Further information in the Zalando City Guide zln.do/en-infrastructure

With floor space of more than 310,000 m², the current fulfillment centers make it possible to process significantly higher revenue volumes than in fiscal year 2016.

33) Euromonitor International

INNOVATIVE LOGISTICS

Zalando successfully organizes its logistics solutions itself. The underlying concept involves identifying any ways of making the shopping experience for customers even easier, faster, and more convenient. Zalando's logistics concept therefore constitutes a fundamental asset to its core business and a unique selling proposition.

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

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

SMART DATA

Zalando collects data and uses its internally developed analytical tools to optimize every aspect of the business. Data analyses are used in multiple ways: to forecast demand, provide consumers with the most personalized fashion purchase experience possible, set country-specific pricing, and to customize product offerings. This approach provides insights that can yield significant strategic benefits. Furthermore, with the aid of the data gathered, Zalando develops applications that enable all business units to constantly optimize their business processes.

The extensive reach of the Zalando Shop and its mobile applications can be used to gain an in-depth understanding of consumer behavior and purchasing patterns. This knowledge enables the brands to efficiently place the relevant advertising offers to their target groups. Zalando can provide its brand partners with tailored advertising with which they can address their target markets not only in the fashion store, but also on relevant third-party websites. By building up this expertise, Zalando can realize additional revenue potential and expand its field of business.

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

INNOVATIVE TECHNOLOGY

Technology is a core competence at Zalando. It is the foundation on which all platform products are based and underlies almost all business processes. Technologies are being constantly refined and offer a lot of room for innovation. Zalando puts a constant focus on improving consumer experiences and reducing value chain frictions in the fashion industry by leveraging its technology solutions.

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

By taking over Tradebyte Software GmbH and enlarging the stake in Anatwine Limited in 2016, Zalando has built up strong partnerships in technological solutions to connect marketplace partners to the platform more simply and effectively.

Further information in the Zalando City Guide zln.do/en-brand

The development of technological expertise and innovations facilitates not only the optimization of business processes, but also the ability to discover and exploit additional synergies and sales potential. Technology will be one of the main drivers of efficiencies for the fashion industry in the coming decade. In this context, Zalando intends to further consolidate its position as a technologically driven company and innovator. As part of this effort, Zalando seeks to address the needs of its brand partners and to offer more personalized channels to inspire buyers of fashion again and again.

LOCAL ALIGNMENT

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

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

FASHION EXPERTISE

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

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

With its internally designed labels, Zalando offers products whose life cycle is managed under one umbrella from the design phase right through to sale. Zalando has succeeded in creating popular brands with a loyal customer base and has started to increase sales by targeted marketing activities and additional distribution channels.

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

AN ATTRACTIVE PARTNER

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

With about 200,000 products from more than 1,500 brands, Zalando offers its customers a wide choice of appealing fashion items. Sourcing teams work continuously with the brand partners to select attractive fashion products. As a result, around 1,000 new products are added to the online assortment on a daily basis, which keeps the selection constantly up-to-date and gives customers an incentive to discover new trends. The strong partnerships with fashion brands make it possible to offer not only a choice of international brands but also brands tailored to local preferences. Zalando can respond quickly to new trends thanks to the fast fashion brands in its assortment. Fast fashion products also offer the advantage of shorter lead times and greater flexibility.

PERSONNEL OPPORTUNITIES

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

Further information in the Zalando City Guide
zln.do/en-recruiting

02.5 OUTLOOK

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

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[34] is expected to achieve year-on-year growth of just 1.7% in 2017, while online retail is expected to grow 11.4%. The picture in Germany is similar. Retail is forecast to grow roughly 2.2% in 2017, whereas internet trade is expected to increase by 13.6%. The Association of the German Internet Industry[35] also predicted that more than half (53%) of German GDP will be comprised of e-commerce-related activities by 2017, a 16% leap from 2012 e-commerce activity levels.

The online fashion industry in Europe and Germany is also predicted to have continued growth. Fashion sales in Europe are expected to stagnate (growth of 0.5% to the prior year), while fashion sales in Germany are even expected to decline slightly (decline of 0.2%). In contrast, online fashion sales are expected to grow significantly faster in Europe and in Germany. Online fashion sales in Europe are expected to increase by approximately 8.7% in 2017, while predictions for Germany anticipate that the market will grow by 9.8% compared with the previous year[36].

With the development of e-commerce models and the increasing openness of consumers to online shopping, Zalando expects the online fashion share to continue to grow strongly in 2017. Due to its wide brand awareness among European consumers, large customer base, strong supplier relationships, and infrastructure footprint, as well as its fashion and mobile technology capacity, Zalando is convinced that it is well positioned to benefit from these favorable market conditions for online sales. The high emotional factor that both brands and customers associate with fashion also provides independent and pure-play fashion e-commerce retailers, like Zalando, with a considerable edge compared to non-specialized e-commerce retailers.

34) Euromonitor, Europe excl. Russia
35) Association of the German Internet Industry
36) Euromonitor, Europe excl. Russia and Germany

02.5.2 FUTURE DEVELOPMENT OF THE GROUP

Zalando aims to continue its course of profitable growth in the future and to gain market share. With this goal, management has defined three investment areas for 2017 that will provide the basis for long-term success. We will focus on investing in the consumer and supplier proposition, as well as in our technology and operations infrastructure to ensure that the company can continue to grow by further expanding its market share and strengthen its competitive position. Management's financial strategy aims to increase revenue while retaining a solid level of profitability.

End of the quick reader information

Against a background of continued online market growth, management forecasts revenue growth in a corridor of 20% to 25% in fiscal year 2017. Revenue in fiscal year 2017 is expected to grow primarily as a result of a further strong increase in orders. We do not anticipate any major year-on-year movements in the average basket size.

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

02.5.3 OVERALL ASSESSMENT BY THE MANAGEMENT BOARD OF ZALANDO SE

Overall, the Management Board views the developments in fiscal year 2016 and the economic position of Zalando as very positive. The group returned a profit once again at group level in the fiscal year. Zalando showed significant growth, made important long-term investments and achieved a strong level of profitability. The company has grown considerably in all markets and has improved its market position further. In 2017, Zalando expects to be able to continue the strong business performance seen in the past fiscal year.

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

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 HGB and the AktG in conjunction with Article 61 EU CR 2157/2001.

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. G4-5

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

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

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

The services provided by ZALANDO SE comprise administrative and IT services.

02.6.2 ECONOMIC SITUATION OF ZALANDO SE

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

INCOME STATEMENT OF ZALANDO SE → 38

G4-9
G4-EC1

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

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

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

REVENUE OF ZALANDO SE BY SEGMENT → 39 G4-9

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

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

The significant increase of EUR 22.8m in own work capitalized in the reporting year was due to the large number of development projects.

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

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

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

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

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

Income taxes include the deferred taxes and current income taxes paid or payable. They comprise trade tax, corporate income tax and solidarity surcharge. As in the prior year, the statutory corporate income tax rate, including solidarity surcharge, for the assessment period 2016 in Germany was 15.8%. The applicable trade tax rate was 14.8% as in the prior year.

Current and deferred taxes are presented in the following table.

INCOME TAXES

→ 40

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

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

NET ASSETS AND FINANCIAL POSITION

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

ASSETS → 41

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

EQUITY AND LIABILITIES → 42

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

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

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

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

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

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

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

Cash flow from investing activities in fiscal year 2016 was mainly driven by capital increases in subsidiaries that were used to invest in the fulfillment infrastructure, as well as to further expand the respective business segments of the subsidiaries. In particular, investments were made in the fulfillment centers in Mönchengladbach, Lahr, and Szczecin and in intangible assets (mainly software and licenses) as well as in property, plant and equipment, primarily for furniture and fixtures.

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

Provisions and liabilities increased by EUR 321.9m to EUR 1,127.7m in line with the expansion of business. As of December 31, 2016, this figure mainly pertains to provisions for product return claims, outstanding invoices for fulfillment and marketing expenses and trade payables.

Reverse factoring agreements are in place with various suppliers and with several financial institutions. Under these agreements, the factor purchases the respective supplier receivables due from Zalando. Supplier claims against Zalando based on these agreements totaling EUR 282.3m had been transferred to the factor as of December 31, 2016 (prior year: EUR 170.9m); this amount is recognized in the balance sheet under trade payables.

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

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 and its weight within the group. The statements also reflect the expectations for the parent company.

Berlin, February 24, 2017

Robert Gentz　　David Schneider　　Rubin Ritter

03

CONSOLIDATED FINANCIAL STATEMENTS

03.1

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

Further information
Notes to the Consolidated Statement of Comprehensive Income
p. 147

CONSOLIDATED INCOME STATEMENT → 43

IN EUR M	Notes	JAN 1 – DEC 31, 2016	JAN 1 – DEC 31, 2015
Revenue	(1.)	3,639.0	2,958.2
Cost of sales	(2.)	–2,029.6	–1,624.0
Gross profit		**1,609.4**	**1,334.1**
Selling and distribution costs	(3.)	–1,223.7	–1,118.9
Administrative expenses	(4.)	–191.3	–129.0
Other operating income	(5.)	16.7	10.2
Other operating expenses	(6.)	–4.1	–7.0
Earnings before interest and taxes (EBIT)		**207.0**	**89.6**
Interest and similar income		2.1	1.2
Interest and similar expenses		–11.8	–6.1
Result of investments accounted for using the equity method		–3.6	–1.6
Other financial result		–0.7	3.5
Financial result	(7.)	**–14.1**	**–3.0**
Earnings before taxes (EBT)		**192.9**	**86.6**
Income taxes	(8.)	–72.5	34.9
Net income for the period		**120.5**	**121.5**
Thereof net income attributable to the shareholders of ZALANDO SE		120.5	121.5
Net income for the period as percentage of revenue		3.3%	4.1%
Basic earnings per share (in EUR)	(9.)	0.49	0.49
Diluted earnings per share (in EUR)	(9.)	0.47	0.48

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME → 44

IN EUR M	JAN 1 – DEC 31, 2016	JAN 1 – DEC 31, 2015
Net income for the period	**120.5**	**121.5**
Items recycled to profit or loss in subsequent periods		
Effective portion of gains / losses from cash flow hedges, net of tax	–2.7	0.4
Exchange differences on translation of foreign financial statements	–2.0	0.0
Other comprehensive income	**–4.7**	**0.4**
Total comprehensive income	**115.8**	**121.9**
Thereof total comprehensive income attributable to the shareholders of ZALANDO SE	115.8	121.9

03.2

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

Further information
Notes to the Consolidated Statement of Financial Position
p. 147

CONSOLIDATED STATEMENT OF FINANCIAL POSITION – ASSETS

→ 45

IN EUR M	Notes	DEC 31, 2016	DEC 31, 2015
Non-current assets			
Intangible assets	(11.)	100.9	48.8
Property, plant and equipment	(12.)	243.0	128.2
Financial assets	(13.)	29.2	17.6
Deferred tax assets	(8.), (27.)	1.6	47.5
Non-financial assets	(13.)	3.0	3.5
Investments accounted for using the equity method	(14.)	14.8	7.4
		392.6	*253.1*
Current assets			
Inventories	(15.)	576.9	493.5
Prepayments	(15.)	1.1	1.4
Trade and other receivables	(16.)	216.0	149.7
Other financial assets	(17.)	245.8	175.9
Other non-financial assets	(17.)	133.1	66.7
Cash and cash equivalents	(18.)	972.6	976.2
		2,145.6	*1,863.5*
Total assets		**2,538.2**	**2,116.5**

CONSOLIDATED STATEMENT OF FINANCIAL POSITION – EQUITY AND LIABILITIES → 46

IN EUR M	Notes	DEC 31, 2016	DEC 31, 2015
Equity			
Issued capital		247.2	247.0
Capital reserves		1,161.0	1,140.9
Other reserves		–3.3	1.4
Accumulated profit / loss		2.5	–118.0
	(19.)	*1,407.5*	*1,271.4*
Non-current liabilities			
Provisions	(21.)	12.6	9.1
Government grants	(22.)	0.0	1.8
Borrowings	(25.)	11.2	14.4
Other financial liabilities	(24.)	2.3	2.1
Other non-financial liabilities	(24.)	3.3	3.1
Deferred tax liabilities	(8.), (27.)	3.1	0.8
		32.5	*31.3*
Current liabilities			
Provisions	(21.)	1.7	0.0
Borrowings	(25.)	3.2	3.2
Trade payables and similar liabilities	(23.)	920.5	645.8
Prepayments received	(23.)	8.1	8.6
Income tax liabilities		8.9	18.2
Other financial liabilities	(24.)	69.0	71.8
Other non-financial liabilities	(24.)	86.7	66.1
		1,098.2	*813.8*
Total equity and liabilities		**2,538.2**	**2,116.5**

03.3

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY 2016

IN EUR M	Notes	Issued capital	Capital reserves
As of Jan 1, 2016		**247.0**	**1,140.9**
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.)	0.2	0.9
Repurchase of treasury shares	(19.)	0.0	–0.7
Share-based payments	(20.)	0.0	19.9
As of Dec 31, 2016		**247.2**	**1,161.0**

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**

→ 47

Other reserves				
Cash flow hedges	Currency translation	Accumulated losses	Total
1.4	**0.0**	**–118.0**	**1,271.4**
0.0	0.0	120.5	120.5
–2.7	–2.0	0.0	–4.7
–2.7	**–2.0**	**120.5**	**115.8**
0.0	0.0	0.0	1.1
0.0	0.0	0.0	–0.7
0.0	0.0	0.0	19.9
–1.3	**–1.9**	**2.5**	**1,407.5**

→ 48

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**

03.4 CONSOLIDATED STATEMENT OF CASH FLOWS

CONSOLIDATED STATEMENT OF CASH FLOWS

→ 49

IN EUR M			Notes	DEC 31, 2016	DEC 31, 2015
1.		Net income for the period		120.5	121.5
2.	+	Non-cash expenses from share-based payments	(20.)	19.9	17.9
3.	–	Cash paid for settlement of claims from share-based payments	(20.)	0.0	–2.3
4.	+	Depreciation of property, plant and equipment and amortization of intangible assets	(11.), (12.)	48.2	34.2
5.	+ / –	Income taxes	(8.)	72.5	–34.9
6.	–	Income taxes paid, less refunds		–33.8	0.0
7.	+ / –	Increase / decrease in provisions	(21.)	0.1	–0.5
8.	– / +	Other non-cash income / expenses		1.2	–1.0
9.	+ / –	Decrease / increase in inventories	(15.)	–83.4	–145.2
10.	+ / –	Decrease / increase in trade and other receivables	(16.)	–64.0	–9.0
11.	+ / –	Increase / decrease in trade payables and similar liabilities	(23.)	264.3	154.9
12.	+ / –	Increase / decrease in other assets / liabilities		–69.7	–16.2
13.	**=**	**Cash flow from operating activities**	**(26.)**	**275.8**	**119.4**
14.	–	Cash paid for investments in property, plant and equipment	(12.)	–122.1	–31.0
15.	–	Cash paid for investments in intangible assets	(11.)	–59.6	–29.0
16.	–	Cash paid for acquisitions of shares in associated companies and acquisition of companies and prepayments for such acquisitions	(11.), (14.)	–30.4	–16.8
17.	+/–	Cash paid for investments in term deposits	(17.)	–65.0	–155.0
18.	+ / –	Change in restricted cash	(13.)	0.0	35.3
19.	**=**	**Cash flow from investing activities**	**(26.)**	**–277.1**	**–196.5**
20.	+	Cash received from capital increases by the shareholders less transaction costs	(19.)	1.1	6.4
21.		Repurchase of treasury shares	(19.)	–0.7	–1.7
22.	+	Cash received from loans	(25.)	0.0	0.0
23.	–	Cash repayments of loans	(25.)	–3.2	–3.2
24.	**=**	**Cash flow from financing activities**		**–2.9**	**1.5**
25.	=	Net change in cash and cash equivalents from cash relevant transactions		–4.1	–75.7
26.	+ / –	Change in cash and cash equivalents due to exchange rate movements		0.5	0.9
27.	+	Cash and cash equivalents at the beginning of the period		976.2	1,051.0
28.	**=**	**Cash and cash equivalents as of Dec 31**		**972.6**	**976.2**

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

CASH-RELEVANT INTERESTS

→ 50

IN EUR M	JAN 1 – DEC 31, 2016	JAN 1 – DEC 31, 2015
Interest paid	–4.0	–6.3
Interest received	0.0	0.7
Total	**–4.0**	**–5.6**

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

FREE CASH FLOW

→ 51

IN EUR M	JAN 1 – DEC 31, 2016	JAN 1 – DEC 31, 2015
Cash flow from operating activities	275.8	119.4
Cash paid for investments in property, plant and equipment	–122.1	–31.0
Cash paid for investments in intangible assets	–59.6	–29.0
Cash paid for acquisitions of shares in associated companies and acquisition of companies and prepayments for such acquisitions	–30.4	–16.8
Free cash flow	**63.7**	**42.6**

03.5 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

03.5.1 COMPANY INFORMATION

COMPANY NAME, REGISTERED OFFICE

ZALANDO SE (the "company") 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 for women, men, and children. The Berlin-based company offers its customers a one-stop, convenient shopping experience with an extensive selection of fashion articles including shoes, apparel, and accessories, with free delivery and returns.

Zalando cooperates with more than 1,500 international brands to offer an assortment ranging from popular global brands, fast-fashion, and local brands, and is completed by self-designed private labels. Zalando's localized offering addresses the distinct preferences of its customers in each of the 15 European markets being served: Austria, Belgium, Denmark, Finland, France, Germany, Italy, Luxembourg, the Netherlands, Norway, Spain, Sweden, Switzerland, Poland, and the United Kingdom. The logistics network with four centrally located fulfillment centers in Germany allows Zalando to efficiently serve its customers throughout Europe, supported by a warehouse in Northern Italy with a focus on local customer needs. Zalando's offering has been extended and enhanced with the Zalando Lounge, which offers registered members special articles at reduced prices. The brick-and-mortar outlet stores in Berlin, Frankfurt am Main, and Cologne serve as additional sales channels for remaining stock. Zalando was founded in 2008 and has its registered offices in Berlin.

03.5.2 GENERAL PRINCIPLES

APPLICATION OF IFRS

The consolidated financial statements of Zalando for the fiscal year from January 1 to December 31, 2016 were compiled in accordance with the International Financial Reporting Standards (IFRS) as adopted by the EU as of the reporting date. In addition, the provisions of Sec. 315a (1) HGB have been taken into account. The consolidated financial statements give a true and fair view of the group's financial performance and position.

GENERAL INFORMATION

The consolidated financial statements have been prepared by accounting for assets and liabilities at amortized cost. Excluded from this are certain financial instruments that are measured at fair value. The statement of profit or loss 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 euro. 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 RELEVANT FOR FISCAL YEAR 2016

The consolidated financial statements take into account all IFRS 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.

Accounting standards subject to first-time application in fiscal year 2016 have not had any material impact on Zalando's financial performance and position.

NEW OR AMENDED IFRS NOT APPLIED

The following accounting standards had already been issued by the IASB as of the time the financial statements 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 2016 (Annual Improvements 2014 – 2016)		Minor amendments to a large number of IFRS (IFRS 1, IFRS 12, IAS 28)
Amendments to IAS 7	Statement of Cash Flows	As a result of the Disclosure Initiative of the IASB, IAS 7 was clarified with regard to the disclosures on changes in respect of liabilities arising from financing activities.
Amendments to IFRS 2	Share-based Payments	The clarifications relate to the effect of vesting conditions on the measurement of a cash-settled share-based payment, changes in the classification of a transaction from cash-settled to equity-settled, and the classification of share-based payment transactions with net settlement features.
IFRS 9	Financial Instruments	IFRS 9 introduces a uniform approach for classifying and measuring financial assets. IFRS 9 relates to the characteristics of the contractual 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 15	Revenue from Contracts with Customers	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 the entity expects to receive. Revenue is recognized when the customer obtains control 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 net contract assets and contract liabilities as well as on significant judgments and estimates.
Amendments to IFRS 15	Clarifications	The clarifications relate to identifying performance obligations, principal versus agent considerations, and licensing of intellectual property as well as the exceptions to the application of sales-based and usage-based royalties and the transitional relief to IFRS 15.
IFRS 16	Leases	IFRS 16 sets out the principles for the recognition, measurement, 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 above (IFRS 4, IAS 12) and are not 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, 2018 (January 1, 2017 for Amendments to IFRS 12), early adoption on a case-by-case basis permitted	No	Application has no significant impact on the consolidated financial statements.
January 1, 2017, early adoption permitted	No	Zalando will make the additional disclosures.
January 1, 2018, early adoption permitted	No	Application has a minor impact on the consolidated financial statements. Early adoption is currently not planned.
January 1, 2018, early adoption permitted	Yes	The new classification model will lead to minor changes in some respects. However, the impact of these changes on the consolidated financial statements will be immaterial. The measurement of impairment losses on trade receivables considers the risk of default for customers in line with industry practices from the point of recognizing the revenue. Such an approach already mainly corresponds with the lifetime ECL (expected credit loss) approach of IFRS 9. The amendments relating to hedge accounting will lead to reporting relief in the assessment of the effectiveness of hedging relationships and the designation of the underlying and the hedging instrument. Zalando would not elect to apply this standard early.
January 1, 2018, early adoption permitted	Yes	The application of IFRS 15 is not expected to have any material effect on the consolidated financial statements of Zalando. There is neither any difference in the point in time when performance obligations are satisfied nor any differences in the pattern of how performance obligations are satisfied. Moreover, certain requirements, e.g. the measurement of revenue based on the expected satisfaction of performance obligations, have already been implemented. No early adoption is expected.
January 1, 2018, early adoption permitted	No	Application has no significant impact on the consolidated financial statements. In agreement with the decision not to apply IFRS 15 earlier, the corresponding clarifications have not been adopted either.
January 1, 2019, early adoption permitted	No	The new standard will have a material effect on the consolidated financial statements. The recognition of a right-of-use asset and a lease liability for leases previously recognized as operating leases will increase the balance sheet total. This will have a non-recurring impact on certain financial indicators upon transition, particularly the equity ratio and gearing ratio. Moreover, the recognition of interest expenses will burden the financial result. By contrast, EBIT will improve. Furthermore, the disclosures required in the notes will be extended. Zalando will apply the exemptions where permitted. These primarily relate to low-value and short-term leases as well as the licensing of software. Early adoption is currently not planned. Basically, for all lease payments, which are disclosed in Section 03.5.8 (5.) 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 24 (prior year) to 32 on account of entities founded and acquired in fiscal year 2016. The acquisitions completed in fiscal year 2016 were not material.

REPORTING DATE OF THE CONSOLIDATED FINANCIAL STATEMENTS

The consolidated financial statements cover fiscal year 2016 on the basis of the reporting period from January 1 to December 31, 2016. 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

A business combination is a transaction in which an acquirer obtains control of one or more businesses. Within the scope of the first-time consolidation of such a business, all acquired assets and liabilities are recognized in the statement of financial position at fair value at the acquisition date. A debit difference between the acquisition cost and proportionate fair value of assets, liabilities, and contingent liabilities is shown as goodwill. A credit difference is recorded in the income statement.

The basis of consolidation includes ZALANDO SE and its subsidiaries over which the company has control within the meaning of IFRS 10.

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, i. e. entities over which the owner can exercise significant influence within the meaning of IAS 28 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.

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.

FOREIGN EXCHANGE RATES → 52

		Closing rate		Annual average rate	
	ISO Code	DEC 31, 2016	DEC 31, 2015	2016	2015
British pound	GBP	0.8562	0.7340	0.8195	0.7258
Danish krone	DKK	7.4344	7.4626	7.4452	7.4587
Norwegian krone	NOK	9.0863	9.6030	9.2906	8.9496
Polish zloty	PLN	4.4103	4.2639	4.3632	4.1841
Swedish krona	SEK	9.5525	9.1895	9.4689	9.3535
Swiss franc	CHF	1.0739	1.0835	1.0902	1.0679
US dollar	USD	1.0541	1.0887	1.1069	1.1095

03.5.5 ACCOUNTING POLICIES

INTANGIBLE ASSETS

Intangible assets are measured at amortized cost. The revaluation method has not been applied. 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. 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 assessed for impairment whenever there is an indication that the intangible asset may be impaired (same applies to at-equity-investments).

Internally generated intangible assets are recognized at development cost if they satisfy the prerequisites of IAS 38 Intangible Assets, i.e., 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. Research costs are expensed in the period in which they arise. An impairment test is performed once a year as long as the asset is not completed, regardless of any indications of impairment. The same applies to goodwill acquired and intangible assets with indefinite useful lives.

The amortization expense on intangible assets with finite lives is recognized in the statement of profit or loss 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 statement of profit or loss when the asset is derecognized.

When testing for impairment pursuant to IAS 36 is required, the carrying amount of an asset is compared to its recoverable amount. The asset is deemed to be impaired when the recoverable amount falls below its carrying amount. The asset is then written down to its recoverable amount through profit or loss. Otherwise its carrying amount is retained. The recoverable amount is the higher of an asset's fair value (according to IFRS 13) less costs of disposal and its value in use.

For most of the assets subject to impairment testing, the value in use exceeds their carrying amount. Consequently, in these cases there is no need to determine their fair value less costs of disposal (IAS 36.19). Only for transactions close to the reporting date, the fair value less costs of disposal is preferred. At Zalando, value in use is calculated on the basis of reconciled planning statements and the budget forecasts they contain. A constant annual growth factor is assumed and the costs of capital before tax used as the discount rate are measured on instruments with a comparable risk profile. The duration of the detailed planning phase is based on the (remaining) useful life of the assets being tested and is capped at five years. In the case of goodwill and intangible assets with indefinite useful lives, the terminal value is added to the planning phase.

From the perspective of the group, the assets being tested are immaterial and concern units outside of the core business of Zalando. The same applies to the sum total of the impairment losses arising from impairment testing.

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.

USEFUL LIVES → 53

	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 statement of profit or loss 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 always 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. 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 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.

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 make the sale. 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. 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 purpose of subsequent measurement:

- loans and receivables,
- held-to-maturity investments,
- 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 or 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. 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 expected risks of default and 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 the right to receive cash flows has been settled.

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 at fair value through profit or loss. In particular, these include 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 on subsequent reporting dates. Derivative financial instruments are reported as financial assets if their fair value is positive. They are presented 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 or 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 pound 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 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 measured 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: Inputs other than quoted prices included within Level 1 that are observable for the assets or liabilities, either directly or indirectly.
- Level 3: Unobservable inputs for the assets and liabilities.

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 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 using a discount rate that is commensurate to the maturity and risk profile. 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 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 added to 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.

EQUITY-SETTLED TRANSACTIONS

The cost of equity-settled transactions is recognized together with a corresponding increase in the capital reserves 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 best estimate of the number of equity instruments that will ultimately vest. The income or expense recognized in the profit or 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 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 cancelation. 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.

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 statement of profit or loss 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 underlying transactions that are not expected to be concluded 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 because Zalando complies with all attached conditions. 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 IFRS 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 expected 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.

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

Further information Consolidated Statement of Comprehensive Income p. 123

(1.) REVENUE

REVENUE → 54

IN EUR M	JAN 1 – DEC 31, 2016	JAN 1 – DEC 31, 2015
Revenue from the sale of merchandise	3,553.1	2,923.0
Revenue from other services	85.9	35.1
Total	**3,639.0**	**2,958.2**

Zalando was able to significantly increase its revenue in all market segments. Revenue rose by 23.0%. The increase in revenue can be attributed primarily to a higher number of orders and a larger customer base.

(2.) COST OF SALES

COST OF SALES → 55

IN EUR M	JAN 1 – DEC 31, 2016	JAN 1 – DEC 31, 2015
Non-personnel costs	1,964.3	1,571.9
Personnel costs	65.2	52.2
Total	**2,029.6**	**1,624.0**

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 1,823.4m (prior year: EUR 1,467.4m).

Zalando generated a gross profit of EUR 1,609.4m in the fiscal year 2016 (prior year: EUR 1,334.1m).

(3.) SELLING AND DISTRIBUTION COSTS

SELLING AND DISTRIBUTION COSTS → 56

IN EUR M	JAN 1 – DEC 31, 2016	JAN 1 – DEC 31, 2015
Non-personnel costs	1,005.2	936.8
Personnel costs	218.4	182.1
Total	**1,223.7**	**1,118.9**

In 2016, selling and distribution costs rose by EUR 104.8m to EUR 1,223.7m and pertain to fulfillment costs of EUR 847.8m (prior year: EUR 767.0m) and marketing costs of EUR 375.9m (prior year: EUR 351.9m). The fulfillment cost ratio as a percentage of revenue improved by 2.6 percentage points from 25.9% in 2015 to 23.3% in 2016. The decrease in the fulfillment cost ratio is primarily a result of lower payment costs, as last year's fulfillment costs had been negatively influenced by allowances for fraudulent receivables. Zalando has since continued to optimize and improve its steering of payment options and has changed its solvency score provider for better monitoring of fraudulent activities, resulting in lower allowances on trade receivables.

(4.) ADMINISTRATIVE EXPENSES

ADMINISTRATIVE EXPENSES → 57

IN EUR M	JAN 1 – DEC 31, 2016	JAN 1 – DEC 31, 2015
Non-personnel costs	71.8	46.6
Personnel costs	119.5	82.4
Total	**191.3**	**129.0**

The non-personnel costs primarily contain office expenses, depreciation, as well as legal and advisory expenses. The increase in personnel costs mainly results from higher administrational headcount to strengthen the Zalando platform.

(5.) OTHER OPERATING INCOME

Other operating income of EUR 16.7m (prior year: EUR 10.2m) largely comprises changes in the fair value of a derivative resulting from the interest in the proceeds from the sale of developed land owned by third parties (see Note 03.5.7 (28.)). Income recognized in that context amounted to EUR 10.6m (prior year: EUR 2.0m).

(6.) OTHER OPERATING EXPENSES

Other operating expenses of EUR 4.1m (prior year: EUR 7.0m) mainly stem from expenses relating to other periods as well as Supervisory Board remuneration.

(7.) FINANCIAL RESULT

FINANCIAL RESULT → 58

IN EUR M	JAN 1 – DEC 31, 2016	JAN 1 – DEC 31, 2015
Interest and similar income	2.1	1.2
thereof from hedging derivatives	3.2	0.8
thereof from trade and other receivables	0.3	0.2
thereof from other financial instruments	–1.4	0.2
thereof other interest and similar income	0.0	0.0
Interest and similar expenses	–11.8	–6.1
thereof from financial liabilities at amortized cost	–6.5	–4.9
thereof from hedging derivatives	–2.6	–0.7
thereof other interest and similar expenses	–2.5	–0.5
thereof from compounding of long-term provisions	–0.1	0.0
Result of investments accounted for using the equity method	–3.6	–1.6
Other financial result	–0.7	3.5
thereof from hedging transactions	–0.6	2.4
thereof from currency effects	–0.2	1.2
Financial result	**–14.1**	**–3.0**

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 increased. Further, interest expense from derivatives rose 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 2016 in Germany was 15.8%. The applicable trade tax rate also remained at 14.7% in comparison to the prior year. This results in an effective tax rate for the group of 30.5% (prior year: 30.5%).

Current and deferred taxes are presented in the following table.

INCOME TAXES → 59

IN EUR M	JAN 1 – DEC 31, 2016	JAN 1 – DEC 31, 2015
Deferred taxes	–47.9	47.1
Current taxes in Germany	–24.5	–12.2
Total	**–72.5**	**34.9**

Zalando has previously made losses, which may be carried forward to reduce the tax burden for future years. As of the reporting date, the Zalando group maintains unused corporate income tax losses of EUR 98.0m (prior year: EUR 193.6m) and unused trade tax losses of EUR 75.5m (prior year: EUR 179.5m). These primarily relate to ZALANDO SE. The amount of these unused tax losses depends on the final assessment by the applicable tax office.

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 0.3m in the reporting year (prior year: EUR 16.9m).

The reasons for the difference between expected and disclosed tax expense in the group are as follows:

TAX RATE RECONCILIATION

→ 60

IN EUR M	JAN 1 – DEC 31, 2016	JAN 1 – DEC 31, 2015
Earnings before taxes	192.9	86.6
Income tax rate for the group	30.5%	30.5%
Expected tax expense (–) / tax income (+)	–58.8	–26.4
Share of taxes for:		
Non-deductible expenses	–6.8	–5.6
Recognition of previously unrecognized unused tax losses	0.0	52.3
Unrecognized unused tax losses	–3.8	16.9
Entities included using the equity method	–1.1	–0.5
Tax expenses (–) / tax income (+) relating to other periods	–0.2	–0.3
Tax rate differences	–1.5	–0.5
thereof share of subsidiaries with higher tax rates	0.0	0.0
thereof share of subsidiaries with lower tax rates	–1.5	–0.5
Changes in tax rates	0.0	–0.2
Other	–0.2	–0.7
Income tax expense according to the consolidated statement of comprehensive income	**–72.5**	**34.9**
Effective tax rate	*37.6%*	*–40.3%*

(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 remained the same as in previous year in line with the consistent net income for the period.

BASIC EARNINGS PER SHARE (EPS) → 61

	JAN 1 – DEC 31, 2016	JAN 1 – DEC 31, 2015
Net income for the period (in EUR m)	120.5	121.5
Basic weighted average number of shares (in millions)	247.2	246.2
Total (in EUR)	**0.49**	**0.49**

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.

DILUTED EARNINGS PER SHARE (EPS) → 62

	JAN 1 – DEC 31, 2016	JAN 1 – DEC 31, 2015
Net income for the period (in EUR m)	120.5	121.5
Weighted average number of diluted shares (in millions)	256.3	254.2
Total (in EUR)	**0.47**	**0.48**

Employee options and contracts, which can be share-settled, were also taken into account in the calculation of the diluted earnings per share in fiscal year 2016. 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 and EIP in fiscal year 2016 were not taken into account in the calculation of diluted earnings.

(10.) PERSONNEL EXPENSES

PERSONNEL EXPENSES → 63

IN EUR M	JAN 1 – DEC 31, 2016	JAN 1 – DEC 31, 2015
Wages and salaries	390.5	266.5
Social security, pensions and other benefit costs	67.2	50.1
thereof pension costs	0.3	0.2
Total	**457.7**	**316.6**

The average number of salaried employees in the group was 11,036 in fiscal year 2016 (prior year: 9,205). Contributions to the statutory pension insurance scheme rose by EUR 7.3m to EUR 30.2m (prior year: EUR 22.9m).

(11.) INTANGIBLE ASSETS

Intangible assets developed as follows:

STATEMENT OF MOVEMENTS OF INTANGIBLE ASSETS 2016

→ 64

IN EUR M	Capitalized development costs	Industrial rights, similar rights and assets as well as licenses	Goodwill	Prepayments and assets under development	Total
Historical cost					
As of Jan 1, 2016	**50.0**	**33.8**	**0.0**	**9.8**	**93.6**
Additions	21.3	8.7	13.6	36.4	80.0
thereof from business combinations	0.0	6.8	13.6	0.0	20.4
Disposals	0.0	0.1	0.0	0.0	0.1
Reclassifications	7.8	–0.3	0.3	–7.8	0.0
As of Dec 31, 2016	**79.1**	**42.1**	**13.9**	**38.4**	**173.5**
Amortization					
As of Jan 1, 2016	**26.9**	**17.9**	**0.0**	**0.0**	**44.8**
Additions	21.1	6.7	0.0	0.0	27.8
As of Dec 31, 2016	**48.0**	**24.6**	**0.0**	**0.0**	**72.6**
Carrying amounts					
As of Dec 31, 2015	**23.1**	**15.9**	**0.0**	**9.8**	**48.8**
As of Dec 31, 2016	**31.1**	**17.5**	**13.9**	**38.4**	**100.9**

STATEMENT OF MOVEMENTS OF INTANGIBLE ASSETS 2015

→ 65

IN EUR M	Capitalized development costs	Industrial rights, similar rights and assets as well as licenses	Goodwill	Prepayments and assets under development	Total
Historical cost					
As of Jan 1, 2015	**34.4**	**18.3**	**0.0**	**2.6**	**55.3**
Additions	13.9	15.2	0.0	9.2	38.3
Reclassifications	1.7	0.3	0.0	–2.0	0.0
As of Dec 31, 2015	**50.0**	**33.8**	**0.0**	**9.8**	**93.6**
Amortization					
As of Jan 1, 2015	**14.7**	**11.6**	**0.0**	**0.0**	**26.3**
Additions	12.2	6.3	0.0	0.0	18.5
As of Dec 31, 2015	**26.9**	**17.9**	**0.0**	**0.0**	**44.8**
Carrying amounts					
As of Dec 31, 2014	**19.7**	**6.7**	**0.0**	**2.6**	**29.0**
As of Dec 31, 2015	**23.1**	**15.9**	**0.0**	**9.8**	**48.8**

Additions mainly relate to capitalized development costs of EUR 57.7m (prior year: EUR 23.1m), of which EUR 36.4m is contained in prepayments and assets under development (prior year: EUR 9.2m). These mainly concern production costs for internally developed software.

Research costs were recognized directly in profit and loss.

Apart from goodwill (see below), brand names and domain rights of EUR 1.3m (prior year: EUR 0.7m) 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 27.8m was recorded in the reporting period (prior year: EUR 18.5m). Of this amount, EUR 4.2m (prior year: EUR 0.7m) is recognized in cost of sales, EUR 19.5m (prior year: EUR 13.4m) in selling and distribution costs, and EUR 4.1m (prior year: EUR 4.4m) in administrative expenses.

IMPAIRMENT TEST FOR GOODWILL

In 2016 ZALANDO SE acquired Tradebyte GmbH and fully consolidated it for the first time on May 10, 2016. The goodwill of EUR 13.6m arising from the purchase price allocation was allocated to the Tradebyte cash-generating unit.

The recoverable amount of the cash-generating unit was determined at fair value less the costs of disposal. The fair value less costs of disposal was calculated using the DCF method (level 3) on account of the lack of observable market prices and level 1 inputs as defined by IFRS 13.

The key assumptions that form the foundation for the cash flows projected in the underlying business plan (detailed planning phase from 2017–2018; technical transition phase 2019–2030) are as follows:

- revenue growth: incremental decline in growth rates over the detailed planning phase and beyond (2019–2030),
- EBIT development: incremental increase in the EBIT margin over the detailed planning phase and beyond (until 2022) until the targeted operating margin is attained,
- long-term revenue growth: 1%,
- WACC after tax: 10.88%.

The recoverable amount exceeds the carrying amount by EUR 11.0m. In our opinion, it is highly unlikely that a change in the above assumptions would lead to the carrying amount of the cash-generating unit exceeding its recoverable amount. For this to occur, the WACC, for example, would have to increase by 4 percentage points or the operating margin would have to consistently fall short of the targeted figure by 5.5 percentage points.

(12.) PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment were as follows:

STATEMENT OF MOVEMENTS OF PROPERTY, PLANT AND EQUIPMENT 2016 → 66

IN EUR M	Plant and machinery	Other equipment, furniture and fixtures	Land and buildings and buildings on third-party land	Prepayments and assets under construction	Total
Historical cost					
As of Jan 1, 2016	**100.5**	**53.0**	**0.7**	**12.7**	**166.9**
Additions	26.8	23.0	3.8	82.1	135.7
thereof from business combinations	0.0	0.2	0.0	0.0	0.2
Disposals	0.0	–0.4	0.0	0.0	–0.4
Reclassifications	10.1	0.2	0.0	–10.3	0.0
Currency translation differences	0.0	0.0	0.0	–0.2	–0.2
As of Dec 31, 2016	**137.4**	**75.8**	**4.5**	**84.3**	**302.0**
Depreciation					
As of Jan 1, 2016	**15.7**	**22.8**	**0.2**	**0.0**	**38.7**
Additions	8.8	11.5	0.1	0.0	20.4
Disposals	0.0	–0.1	0.0	0.0	–0.1
Reclassifications	0.7	–0.7	0.0	0.0	0.0
As of Dec 31, 2016	**25.2**	**33.5**	**0.3**	**0.0**	**59.0**
Carrying amounts					
As of Dec 31, 2015	**84.8**	**30.2**	**0.5**	**12.7**	**128.2**
As of Dec 31, 2016	**112.2**	**42.3**	**4.2**	**84.3**	**243.0**

STATEMENT OF MOVEMENTS OF PROPERTY, PLANT AND EQUIPMENT 2015 → 67

IN EUR M	Plant and machinery	Other equipment, furniture and fixtures	Buildings on third-party land	Prepayments and assets under construction	Total
Historical cost					
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
Disposals	0.0	0.0	0.0	0.0	0.0
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**

The additions mainly pertain to investments in expanding the fulfillment centers in Lahr, Mönchengladbach and Szczecin.

Depreciation of property, plant and equipment came to EUR 20.4m (prior year: EUR 15.8m). Of this total, an amount of EUR 2.6m (prior year: EUR 2.2m) is recognized in cost of sales, EUR 14.2m (prior year: EUR 10.9m) in selling and distribution costs, and EUR 3.6m (prior year: EUR 2.7m) in administrative expenses.

(13.) NON-CURRENT FINANCIAL AND NON-FINANCIAL ASSETS

Non-current financial assets mainly comprise restricted cash of EUR 12.9m (prior year: EUR 13.0m). Furthermore, other financial assets include the long term fair value portion of a derivative resulting from the interest in the proceeds from the sale of developed land owned by third parties (EUR 10.9m; prior year: EUR 2.0m)

Non-current, non-financial assets relate to the periodical deferral of expenses for payments already made.

(14.) INVESTMENTS ACCOUNTED FOR USING THE EQUITY METHOD

During the reporting period, Zalando increased its investments in associates. Increases mainly relate to the acquisition of an additional 16.4% stake in Anatwine Ltd., Cheltenham, UK. This purchase comprised existing as well as newly issued shares resulting from a capital increase of Anatwine.

The increase of the carrying amount from the further acquisition of shares in Anatwine Ltd. was partly offset by operating losses of the entity (EUR 3.6m, prior-year period: EUR 1.6m).

Anatwine Ltd. provides customized software integration services for fashion brands to enable the integration of their merchandise into online marketplaces.

(15.) INVENTORIES AND PREPAYMENTS

Inventories of merchandise, mainly consisting of the product groups shoes and textiles, are recognized at an amount of EUR 576.9m (prior year: EUR 493.5m).

Allowances of EUR 82.9m were recognized on inventories and the right to repossess goods associated with expected returns (prior year: EUR 71.4m). Expenses for allowances recorded on inventories came to EUR 95.3m in the reporting year (prior year: EUR 79.8m).

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:

DEVELOPMENT OF BAD DEBT ALLOWANCES → 68

IN EUR M	DEC 31, 2016	DEC 31, 2015
Accumulated bad debt allowances as of Jan 1	**132.9**	**63.3**
Additions to portfolio-based specific bad debt allowance	28.1	80.9
Utilizations	–82.1	–11.4
Reversals	–7.0	0.0
Exchange rate effects and other changes	–0.2	0.1
Accumulated bad debt allowances as of Dec 31	**71.7**	**132.9**

Additions to bad debt allowances totaled EUR 28.1m in the reporting year (prior year: EUR 80.9m). Of the bad debt allowances recognized as of December 31 of the prior year, EUR 82.1m was utilized (prior year: EUR 11.4m) and EUR 7.0m reversed (prior year: EUR 0m). Bad debt losses for uncollectible receivables amounted to EUR 89.4m in the fiscal year (prior year: EUR 24.1m).

Bad debt allowances significantly decreased as prior year's allowances were negatively impacted by a higher volume of fraud. Zalando has since continued to optimize and improve its steering of payment options and has changed its solvency score provider for a better monitoring of fraudulent activities, resulting in lower allowances on trade receivables.

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.) CURRENT OTHER FINANCIAL ASSETS AND OTHER NON-FINANCIAL ASSETS

Other financial assets of EUR 245.8m (prior year: EUR 175.9m) mainly relate to financial investments with an original term to maturity of between three and twelve months of EUR 220.0m (prior year: EUR 155.0m). Furthermore, other financial assets include the market value of hedging instruments (EUR 7.3m, prior year: EUR 3.8m), see Note 03.5.7 (28.).

Other non-financial assets of EUR 133.1m (prior year: EUR 66.7m) primarily comprise VAT receivables of EUR 59.6m (prior year: EUR 21.0m), the right to repossess goods associated with expected returns of EUR 46.7m (prior year: EUR 34.5m), and deferred items at EUR 13.5m (prior year: EUR 4.9m).

(18.) CASH AND CASH EQUIVALENTS

Zalando'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.

CASH AND CASH EQUIVALENTS → 69

IN EUR M	DEC 31, 2016	DEC 31, 2015
Money market funds	477.9	439.7
Cash in bank	439.6	391.5
Short-term bank deposits	55.0	145.0
Cash on hand	0.1	0.0
Total	**972.6**	**976.2**

(19.) EQUITY

The parent company issued 247,255,868 ordinary bearer no-par value shares (Stückaktien auf den Inhaber) as of the reporting date (prior year: 247,059,518). 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 2016, the issued capital of the parent company was increased by a total of EUR 0.2m to EUR 247.2m by making partial use of authorized capital 2013. It has been paid in full.

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

AUTHORIZED AND CONDITIONAL CAPITAL → 70

	Amount in EUR m	Number of no-par value shares	Purpose
Authorized capital 2013	2.9	2,865,775	Servicing of subscription rights from COPs and SOP 2011 until October 28, 2018
Authorized capital 2015	94.7	94,694,847	Cash or non-cash capital 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
Conditional capital 2016	5.1	5,098,440	Servicing of subscription rights from EIP 2016

The use of authorized capital 2013 and authorized capital 2015 requires the approval of the Supervisory Board. Authorized capital 2015 was not used in the fiscal year 2016. No subscription rights from conditional capital 2013, conditional capital 2014 or conditional capital 2016 were exercised in the fiscal year.

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

The capital reserve amounts to EUR 1,161.0m (prior year: EUR 1,140.9m). In the reporting year, contributions were made under the share-based payment plans in accordance with IFRS 2 of EUR 19.9m (prior year: EUR 17.9m).

Other reserves include effects from cash flow hedging of EUR –2.3m (prior year: EUR 1.9m) and deferred taxes on the resulting measurement differences of EUR 1.0m (prior year: EUR –0.6m). Due to cash flow hedging in the reporting year, income of EUR 3.6 (prior year: EUR –6.7m) was recycled from other reserves to revenue, and expense of EUR 0.1m (prior year: income of EUR 1.4m) to cost of sales. Moreover, expenses of EUR 0.2m (prior year: expenses of EUR 0.2m) from interest rate hedging were recycled to the financial result in the reporting year.

In December 2016, ZALANDO SE repurchased 20,000 treasury shares at an average price of EUR 34.63, which corresponds to a notional share in share capital of EUR 20,000 and thus 0.01% of share capital. Total repurchased shares per December 31, 2016 amount to a notional share in share capital of EUR 70,000 and thus to 0.03% of share capital.

The accumulated profit results from the loss carryforwards of past reporting periods and the profit 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 five kinds of payment awards: First, the Call Option Programs ("COPs"); second, the Stock Option Program 2011 ("SOP 2011"); third, the Stock Option Program 2013 ("SOP 2013"); fourth, the Stock Option Program 2014 ("SOP 2014"); and fifth, the Equity Incentive Program ("EIP"). The following section includes the explanation of significant programs.

The goal of this share-based payments is to reward the recipients' contribution to the value of the business and foster the long-term success of the company. This variable compensation package, with its long-term incentive and risk-based character, is a sensible way of tying together the interests of the shareholders and those of management.

In addition, Zalando has entitled all employees to subscribe to the "Share Invest" program and, unless they participate in the EIP, also the "Share Bonus" program. The Share Invest Program is designed as a self-financed acquisition of shares by the participants (investment shares) with a subsequent issue by the company of matching shares. Following a one- year acquisition period and a two year holding period the company grants each program participant matching shares equivalent to 50% of the investment shares acquired during the acquisition period, provided the participant is still employed at Zalando and still holds the relevant investment shares at the time of matching.

The Share Bonus program give all participants the opportunity of receiving Zalando shares for free for the fiscal year. The bonus shares are issued voluntarily. There is a lock-up period of one year for bonus shares commencing on the respective date on which they are settled.

The company can decide at its own discretion whether and to what extent the company will entitle the employees to subscribe to the "Share Invest" program and the "Share Bonus" program in following years and to what extent.

SOP 2011

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 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 the SOP 2011 is closed.

The options granted to the beneficiaries vest in 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.

DEVELOPMENT OF OPTIONS (SOP 2011) → 71

	Number	Weighted average exercise price (EUR)
Outstanding options as of Jan 1, 2015	**3,085,500**	**5.65**
Options granted during the reporting period	0	–
Options forfeited during the reporting period	0	–
Options exercised during the reporting period	355,300	5.65
Options expired during the reporting period	0	–
Outstanding options as of Dec 31, 2015	**2,730,200**	**5.65**
Options vested as of Dec 31, 2015	**1,720,400**	**5.65**
Outstanding options as of Jan 1, 2016	**2,730,200**	**5.65**
Options granted during the reporting period	0	–
Options forfeited during the reporting period	0	–
Options exercised during the reporting period	187,000	5.65
Options expired during the reporting period	0	–
Outstanding options as of Dec 31, 2016	**2,543,200**	**5.65**
Options vested as of Dec 31, 2016	**1,870,000**	**5.65**

The options 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 amounts to EUR 30.93 (prior year: 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 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:

DEVELOPMENT OF OPTIONS (SOP 2013) → 72

	Number	Weighted average exercise price (EUR)
Outstanding options as of Jan 1, 2015	**9,817,500**	**15.63**
Options granted during the reporting period	0	–
Options forfeited during the reporting period	0	–
Options exercised during the reporting period	0	–
Options expired during the reporting period	0	–
Outstanding options as of Dec 31, 2015	**9,817,500**	**15.63**
Options vested as of Dec 31, 2015	**3,904,560**	**15.63**
Outstanding options as of Jan 1, 2016	**9,817,500**	**15.63**
Options granted during the reporting period	0	–
Options forfeited during the reporting period	0	–
Options exercised during the reporting period	0	–
Options expired during the reporting period	0	–
Outstanding options as of Dec 31, 2016	**9,817,500**	**15.63**
Options vested as of Dec 31, 2016	**5,856,840**	**15.63**

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

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

SOP 2014

The SOP 2014 authorizes leading members of the management working under the Management Board to subscribe to a total of 6,732,000 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, EUR 30.48, and EUR 31.60 per option based on the respective grant date of the options. Each option entitles the beneficiary to acquire one share.

The options granted to the beneficiaries vest in 16 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:

DEVELOPMENT OPTIONS (SOP 2014) → 73

	Number	Weighted average exercise price (in EUR)
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**
Outstanding options as of Jan 1, 2016	**6,468,554**	**19.13**
Options granted during the reporting period	342,450	31.60
Options forfeited during the reporting period	215,485	**22.91**
Options exercised during the reporting period	0	–
Options expired during the reporting period	0	–
Outstanding options as of Dec 31, 2016	**6,595,520**	**19.65**
Options vested as of Dec 31, 2016	**3,450,009**	**18.90**

The weighted average of the remaining contractual term of the outstanding options (meaning the period until the options’ expiry date) is six years and seven months as of the reporting date (prior year: seven years and eight months).

The weighted average fair value of a new option granted within the scope of the SOP 2014 was EUR 7.10 in the reporting period (prior year: EUR 8.86). The fair value of the options comprises the intrinsic value and the time 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:

PARAMETERS SOP 2014 → 74

IN EUR M	JAN 1 – DEC 31, 2016	JAN 1 – DEC 31, 2015
Weighted average share price (EUR)	29.23	27.80
Weighted average exercise price (EUR)	31.60	24.87
Expected volatility (%)	36.2	35.3
Expected life of option (years)	4	4.1
Expected dividends (%)	0.0	0.0
Risk-free interest rate for equivalent maturities (%)	0.0	–0.1
Probability of reaching the performance target (%)	95.2	94.5

The parameters used in the valuation were determined as follows: The share price was set with reference to the trading price of the Zalando shares. The estimated volatility used in the model is primarily based on the historical share price of the Zalando share. 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.

EIP

The EIP was granted in fiscal year 2016 to the members of the management boards of affiliated companies and managerial staff members as well as selected proven key employees of the company and affiliated companies.

The Management Board is authorized to issue until May 30, 2021 in total up to 5,098,440 subscription rights for up to 5,098,440 non-par value shares of the company with a pro-rata share in the share capital of EUR 1.00 each by granting of subscription rights for shares (performance shares) and stock appreciation rights with subscription rights for shares (performance options). The options issued under the EIP entitle the participants to receive an annual mix of performance shares and performance options depending on the total amount in Euro granted to each participant (the annual grant) and the decision of the participant how to split the annual grant between performance shares and performance options as well as, in relation to the performance options, whether the performance options will be granted as ATM performance options or OTM performance options.

Under the EIP program participants are entitled to acquire a portfolio of performance shares and performance options. With regard to the performance options a distinction is made between ATM (at the money) and OTM (out of the money) performance options. The performance options provide a payout only in case of an increase of the business value. How the increase in value is calculated depends on whether an ATM or an OTM performance option is concerned. The management of Zalando aims to settle performance shares and performance options by issuing shares.

The value of the performance shares and performance options and the resulting swap ratio for performance shares and performance options granted is at the discretion of Zalando. It is set on the basis of a fair value measurement using the Black-Scholes model. The portfolio consists of performance shares and either ATM performance options or OTM performance options. The only distinction between performance shares, ATM performance shares and OTM performance shares is the exercise price. Performance shares have a set exercise price of EUR 1.00, for ATM performance options the exercise price is set equal to the volume-weighted price on the market over the last 60 days of trading prior to the grant date (base price) and the OTM performance shares have a price set at 120% of the base price. The members of management have to pay the actual exercise price for performance shares and performance options. The exercise prices are the starting point to measure the actual increase in business value.

The ability to exercise the portfolio is tied to a number of conditions. Firstly, the participant has to be employed by the company during the vesting period. Secondly, the terms and conditions of the EIP must be met and thirdly, the waiting period must have expired.

The performance options and performance shares granted to the beneficiaries vest in four tranches over a period of twelve months and under the condition that the beneficiary is employed at Zalando over the vesting period of the tranche. The performance condition stipulates that Zalando must achieve a certain level of a contractually agreed revenue growth over a period of four years, starting on the grant date. If the contractual revenue target is not achieved, the portfolio is forfeited without replacement. The waiting period of four years commences on the date on which the portfolio of performance options and performance shares is granted. It continues for a period of four years. The beneficiaries can exercise vested performance options and performance shares after the waiting period within certain time frames over a period of four years.

When the performance options and performance shares are exercised, the difference between the price of the Zalando share on the exercise date and the respective exercise price is calculated. This difference will be paid out in Zalando shares. The price of the Zalando share on the exercise date is decisive for calculating the number of Zalando shares to be issued. If the necessary number of shares exceeds the number authorized by the annual general meeting, any overhang is paid out in cash.

The weighted average fair value of performance shares within the scope of the EIP was EUR 22.42 in the reporting period. The weighted average fair value of ATM performance options was EUR 5.59 and of OTM performance options was EUR 4.24.

The fair value of the options comprises the intrinsic value and the time value multiplied by the probability that the performance target will be reached. The fair value 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:

PARAMETERS EIP 2016

→ 75

	JAN 1 – DEC 31, 2016
Weighted average share price (EUR)	24.61
Weighted average exercise price Performance Share (EUR)	1.0
Weighted average exercise price ATM performance option (EUR)	27.1
Weighted average exercise price OTM performance option (EUR)	32.52
Expected volatility (%)	36.0
Expected life of option (years)	4.0
Expected dividends (%)	0.0
Risk-free interest rate for equivalent maturities (%)	–0.6
Probability of reaching the performance target (%)	95.1

The parameters used in the valuation were determined as follows: The share price was set with reference to the trading price of the Zalando shares. The expected volatility used in the model is primarily based on the historical share price of the Zalando share. 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.

TOTAL EXPENSES RECOGNIZED FOR SHARE-BASED PAYMENT AWARDS

The expenses recognized for share-based payments awards in fiscal years 2016 and 2015 break down as follows:

EXPENSES FROM SHARE-BASED PAYMENTS

→ 76

IN EUR M	JAN 1 – DEC 31, 2016	JAN 1 – DEC 31, 2015
Equity-settled	19.9	17.9
Total expenses recognized	**19.9**	**17.9**

(21.) PROVISIONS

Provisions developed as follows in the reporting year:

DEVELOPMENT OF PROVISIONS

→ 77

IN EUR M	JAN 1, 2016	Usage	Addition	Interest expense	DEC 31, 2016
Restoration obligations	8.5	0.0	3.1	0.2	11.8
Other provisions	0.6	0.1	2.0	0.0	2.6
Total	**9.1**	**0.1**	**5.1**	**0.2**	**14.4**

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 2016:

MATURITY OF PROVISIONS → 78

	Due in			
IN EUR M	Less than 1 year	1–5 years	More than 5 years	Total
Restoration obligations	0.0	0.9	10.9	11.8
Other provisions	1.7	0.5	0.3	2.6
Total	**1.7**	**1.4**	**11.2**	**14.4**

(22.) GOVERNMENT GRANTS

These pertain solely to grants related to income for personnel costs, and have fully been utilized as of December 31, 2016. 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 274.8m to EUR 920.5m.

Under reverse factoring agreements, suppliers' claims against Zalando totaling EUR 282.3m were transferred to various factors as of December 31, 2016 (December 31, 2015: EUR 170.9m). These are recognized in the statement of financial position under trade payables and similar liabilities.

Trade payables contain liabilities denominated in foreign currency in the amount equivalent to EUR 31.1m as of the reporting date (prior year: EUR 12.2m).

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 86.7m (prior year: EUR 66.1m) mainly relate to VAT liabilities of EUR 43.3m (prior year: EUR 39.5m) and liabilities from gift vouchers of EUR 17.3m (prior year: EUR 11.2m), as well as liabilities to employees of EUR 13.1m (prior year: EUR 9.4m). Liabilities from the sale of gift vouchers are recognized at the value of the anticipated utilization.

Other current financial liabilities of EUR 69.0m (prior year. EUR 71.8m) primarily comprise obligations to reimburse customers EUR 34.9m (prior year: EUR 46.1m) for returns as well as debtors with credit balances of EUR 22.8m (prior year: EUR 20.4m).

(25.) BORROWINGS

Borrowings are due to banks and relate to the financing of fulfillment centers. For more information, please refer to Section 03.5.8.1 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. Cash flows from operating, investing, and financing activities are divided according to their source and utilization. The change in 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 fiscal year 2016, Zalando generated a positive cash flow from operating activities of EUR 275.8m (prior year: EUR 119.4m). Further to an improvement in pre-tax income (which rose from EUR 86.6m in the prior year to EUR 192.9m in the reporting year), cash flow from operating activities increased largely due to higher cash inflow from working capital. This was partly offset by the increase in income tax payments and cash outflows for VAT receivables.

The capital employed in net working capital decreased compared to the prior year and thus positively impacts the cash flow. Net working capital, consisting of inventories and trade and other receivables less trade payables and similar liabilities decreased to a low amount of EUR –127.6m as of December 31, 2016 (prior year: EUR –2.6m).

The negative cash flow from investing activities mainly results from investments in the logistics infrastructure relating primarily to the fulfillment centers in Mönchengladbach, Lahr, and Szczecin and capital expenditures on internally developed software, as well as furniture and fixtures. Cash flow from investing activities further consists of cash invested in term deposits with an original term of more than three months and is therefore presented in cash flow from investing activities. As of December 31, 2016, an amount of EUR 220.0m was invested in such term deposits (December 31, 2015: EUR 155.0m). An amount of EUR 30.4m was invested in corporate acquisitions (prior year: EUR 16.8m).

As a result, cash and cash equivalents decreased by EUR 3.6m during the year, resulting in Zalando carrying cash and cash equivalents of EUR 972.6m as of December 31, 2016 (prior year: EUR 976.2m).

Free cash flow increased by EUR 21.1m from EUR 42.6m to EUR 63.7m compared to the prior year. The main factor in the increase is the higher cash inflow from operating activities and the cash outflow from investing activities. Thus, operational and strategic investments are fully financed by the operating cash flow.

Zalando's liquidity position – as the sum of cash and cash equivalents plus term deposits with an original term of more than three months but less than twelve months – rose by EUR 61.4m in 2016. The increase was largely due to the cash inflow from operating activities.

(27.) DEFERRED TAXES

Deferred tax assets and liabilities recognized as of the reporting dates of the reporting and comparative periods break down as follows:

DEFERRED TAX ASSETS AND LIABILITIES → 79

	Deferred tax assets		Deferred tax liabilities		Net balance	
IN EUR M	DEC 31, 2016	DEC 31, 2015	DEC 31, 2016	DEC 31, 2015	DEC 31, 2016	DEC 31, 2015
Intangible assets	1.9	0.1	–20.6	–10.6	–18.7	–10.5
Property, plant and equipment	0.0	0.0	–3.4	–2.8	–3.4	–2.8
Inventories	0.0	0.0	–2.5	–1.2	–2.5	–1.2
Trade and other receivables	0.2	1.0	–6.7	–1.6	–6.6	–0.6
Provisions	3.2	2.4	0.0	0.0	3.2	2.4
Other financial and non-financial liabilities	5.0	1.7	–0.2	0.0	4.8	1.6
Unused tax losses	21.7	57.8	0.0	0.0	21.7	57.8
Total	**31.9**	**63.0**	**–33.5**	**–16.3**	**–1.5**	**46.7**
Netting	**–30.3**	**–15.5**	**30.3**	**15.5**	**0.0**	**0.0**
Total recognized deferred tax assets and liabilities	**1.6**	**47.5**	**–3.1**	**–0.8**	**–1.5**	**46.7**

Changes in the fair values of hedging derivatives (cash flow hedges) in equity had an equity-increase effect from deferred taxes of EUR 0.9m (prior year: EUR –0.6m), which are included in other comprehensive income.

Deferred tax assets on unused tax losses in the 2016 reporting year pertain to ZALANDO SE (EUR 21.4m; prior year: EUR 57.1m) and the subsidiary zLabels GmbH (EUR 0.4m; prior year: EUR 0.7m). The amounts recognized are based on the tax results expected in the planning period.

(28.) FINANCIAL INSTRUMENTS

CARRYING AMOUNTS OF FINANCIAL ASSETS / LIABILITIES AND THEIR FAIR VALUES 2016

→ 80

IN EUR M	Category pursuant to IAS 39*	Carrying amount as of DEC 31, 2016	Amount recognized in the balance sheet pursuant to IAS 39			Fair value as of DEC 31, 2016**
			Amortized cost	Fair value not through profit or loss	Fair value through profit or loss	
Assets						
Cash and cash equivalents	LaR	972.6	972.6	–	–	–
Trade receivables	LaR	216.0	216.0	–	–	–
Other financial assets	LaR	246.7	246.7	–	–	–
Derivative financial instruments designated as hedging instruments	n.a.	7.3	–	6.2	1.1	7.3
Other derivative financial instruments	FVtPL	12.8		12.8		12.8
Liabilities						
Trade payables and similar liabilities	FLAC	920.5	920.5	–	–	–
Financial liabilities	FLAC	14.4	14.4	–	–	15.5
Other financial liabilities	FLAC	61.8	61.8	–	–	–
Derivative financial instruments designated as hedging instruments	n.a.	9.5	–	9.3	0.2	9.5

*) LaR – Loans and Receivables
FLAC – Financial Liabilities measured at Amortized Cost
FVtPL – at Fair Value through Profit or Loss
n.a. – not assigned to a category

**) Based on the simplification allowed under IFRS 7.29, the company assumed that for current financial assets and liabilities accounted under amortized cost the book value fairly represents the fair value.

CARRYING AMOUNTS OF FINANCIAL ASSETS / LIABILITIES AND THEIR FAIR VALUES 2015 → 81

IN EUR M	Category pursuant to IAS 39*	Carrying amount as of DEC 31, 2015	Amount recognized in the balance sheet pursuant to IAS 39: Amortized cost	Fair value not through profit or loss	Fair value through profit or 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	187.6	187.6	–	–	–
Derivative financial instruments designated as hedging instruments	n.a.	3.8	–	2.9	0.9	3.8
Other derivative financial instruments	FVtPL	2.0		2.0		2.0
Liabilities						
Trade payables and similar liabilities	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
FVtPL – at Fair Value through Profit or Loss
n.a. – not assigned to a category
**) Based on the simplification allowed under IFRS 7.29, the company assumed that for current 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 euro.

The nominal and market values of the derivative financial instruments are as follows as of the reporting date.

NOMINAL AMOUNTS AND MARKET VALUES OF DERIVATIVE FINANCIAL INSTRUMENTS → 82

		Market value				
	Nominal value	Assets	Liabilities	Total	Nominal value	Market value
IN EUR M	DEC 31, 2016	DEC 31, 2016	DEC 31, 2016	DEC 31, 2016	DEC 31, 2015	DEC 31, 2015
Forward exchange contracts designated as hedging instruments	1,104.4	7.3	9.2	–1.9	295.5	3.1
Interest rate swaps designated as hedging instruments	8.8	0.0	0.3	–0.3	11.0	–0.4
Total	**1,113.3**	**7.3**	**9.5**	**–2.2**	**306.5**	**2.7**

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 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 or non-current financial assets and liabilities.

In the event that all contractual partners fail to meet their obligations from the forward exchange contracts, there is no credit risk for the group as of the reporting date (prior year: EUR 3.0m).

The forward exchange contracts in place as of the reporting date have a remaining term of up to 13 months.

In the reporting period, expenses from fair value measurement of financial instruments designated as a cash flow hedge of EUR –3.1m (prior year: EUR +1.8m) were 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.

NET GAINS AND LOSSES FROM FINANCIAL INSTRUMENTS 2016

→ 83

IN EUR M	From interest affecting profit or loss	From subsequent measurement affecting profit or loss			From disposal affecting profit or loss	Total 2016
		At Fair value	Currency translation	Allowances		
Loans and receivables	–0.5	0.0	–0.9	–28.1	5.1	–24.4
Fair Value through Profit or Loss	0.1	10.6	0.0	0.0	0.0	10.8
Liabilities in the category measured at amortized cost	–6.5	0.0	–0.1	0.0	0.0	–6.6
Total	**–6.9**	**10.6**	**–0.9**	**–21.1**	**–1.9**	**–20.2**

NET GAINS AND LOSSES FROM FINANCIAL INSTRUMENTS 2015

→ 84

IN EUR M	From interest affecting profit or loss	From subsequent measurement affecting profit or loss			From disposal affecting profit or loss	Total 2015
		At Fair value	Currency translation	Allowances		
Loans and receivables	0.3	0.0	0.4	–80.9	–24.1	–104.3
Fair Value through Profit or Loss	0.0	2.0	0.0	0.0	0.0	2.0
Liabilities in the category measured at amortized cost	–5.0	0.0	–0.2	0.0	0.0	–5.2
Total	**–4.7**	**2.0**	**0.2**	**–80.9**	**–24.1**	**–107.5**

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 hedging instrument, are allocated to level 2. The forward exchange contracts are measured based on observable spot foreign exchange rates of the European Central Bank 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.

Other financial assets include an interest in the proceeds from the sale of developed land owned by third parties. This is measured at fair value through profit or loss using the income approach and level 3 inputs of the fair value hierarchy. As of December 31, 2016, it amounted to EUR 12.8m (prior year: EUR 2.0m).

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 are 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.

NETTING OF FINANCIAL INSTRUMENTS 2016

→ 85

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, 2016
Financial assets					
Derivative financial assets	7.3	0.0	7.3	7.1	0.2
Financial liabilities					
Derivative financial liabilities	9.5	0.0	9.5	7.1	2.3

NETTING OF FINANCIAL INSTRUMENTS 2015

→ 86

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, 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

03.5.8 OTHER NOTES

(1.) 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 (mainly 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 arises from changes in the fair value of future cash flows from financial instruments due to 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 exposed to translation coming from foreign subsidiaries in Poland and China. Currently Zalando does not hedge the translation risk for these subsidiaries.

The transaction risk relates to the fact that exchange rate fluctuations can lead to changes in value of future foreign currency payments. Zalando operates in different markets and is therefore exposed to foreign currency risk generated from revenues and sourcing transactions in foreign currencies. Forward exchange contracts are used to hedge these activities. Basically derivative financial instruments are concluded and processed in accordance with internal guidelines that set out binding rules for the scope of action and responsibilities, as well as 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, 2016, earnings before taxes would have been EUR 7.3m lower (prior year: EUR 5.4m). If the euro had depreciated 5% compared with the exchange rate as of December, 2016 earnings before taxes would have been EUR 8.1m higher (prior year: EUR 6.0m).

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

FOREIGN CURRENCY SENSITIVITY ON PROFIT OR LOSS 2016 → 87

	Impact on profit or loss							
IN EUR M	CHF	GBP	NOK	PLN	SEK	USD	Other	Total
Exchange rate as Dec 31, 2016	**1.0739**	**0.8562**	**9.0863**	**4.4103**	**9.5525**	**1.0541**	**–**	
Increase 5% Exchange rate	–2.5	–1.0	–0.4	–0.9	–0.8	–1.3	–0.3	–7.3
Decrease 5% Exchange rate	2.8	1.1	0.4	1.0	0.8	1.5	0.4	8.1

The reserve for derivatives in group equity would have been EUR 28.1m higher (prior year: EUR 11.8m higher) if the euro had appreciated 5% compared with the exchange rate as of December 31, 2016. This reserve would have been EUR 36.4m lower (prior year: EUR 13.1m lower) if the euro had depreciated 5%.

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

FOREIGN CURRENCY SENSITIVITY ON OTHER COMPREHENSIVE INCOME 2016 → 88

	Impact on other comprehensive income							
IN EUR M	CHF	GBP	NOK	PLN	SEK	USD	Other	Total
Exchange rate as Dec 31, 2016	**1.0739**	**0.8562**	**9.0863**	**4.4103**	**9.5525**	**1.0541**	**–**	
Increase 5% Exchange rate	23.8	1.7	4.1	5.1	5.9	–5.9	–	34.6
Decrease 5% Exchange rate	–26.3	–1.8	–4.6	–5.6	–6.5	6.5	–	–38.2

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

The interest rate risk for floating-rate financial instruments does not 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, for cash and cash equivalents, there is a credit risk 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. The company addresses this exposure by distributing its derivatives financial instruments and cash held at banks over multiple financial institutions with good credit standing and money market funds with an AAA-rating (according to Standard & Poor's).

LIQUIDITY RISK

The liquidity risk is defined as a possible lack of cash funds to fulfill the financial obligations of the company. This hazard may arise from insufficient centralization of cash where it is needed, inexact liquidity forecasting or unbalanced investment strategy for the company's cash reserves.

Zalando manages its exposure to liquidity risk by regularly monitoring liquidity needs through an integrated platform for short, medium and long-term forecasting of the cash requirements. Additionally, the group invests the cash reserves of the company in term deposits and money market instruments and pools the cash balances centrally on a regular basis to ensure maximization of cash where it is needed.

To reduce the liquidity risk further, Zalando uses reverse factoring as an additional financing source to extent the payment terms with different financial partners and suppliers in order to improve working capital. 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, 2016 and December 31, 2015 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, 2016 and December 31, 2015 respectively. All on-call financial liabilities are always allocated to the earliest possible date.

PAYMENTS FOR FINANCIAL LIABILITIES AND DERIVATIVE FINANCIAL INSTRUMENTS 2016 → 89

	Carrying amount	Cash flows 2017		Cash flows 2018–2021		Cash flows 2022 ff.	
IN EUR M	DEC 31, 2016	Interest	Repayments	Interest	Repayments	Interest	Repayments
Borrowings	14.4	0.4	3.2	0.8	11.2	0.0	0.0
Trade payables and similar liabilities	920.5	1.4	920.5	0.0	0.0	0.0	0.0
Other financial liabilities	71.3	0.1	69.0	0.2	2.3	0.0	0.0
of which from derivatives	9.5	0.1	9.2	0.2	0.0	0.0	0.0
Total	**1,006.2**	**1.9**	**992.8**	**1.0**	**13.5**	**0.0**	**0.0**

PAYMENTS FOR FINANCIAL LIABILITIES AND DERIVATIVE FINANCIAL INSTRUMENTS 2015 → 90

	Carrying amount	Cash flows 2016		Cash flows 2017–2020		Cash flows 2021 ff.	
IN EUR M	DEC 31, 2015	Interest	Repayments	Interest	Repayments	Interest	Repayments
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**

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 IFRS. Zalando defines 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 55.5% as of the reporting date (prior year: 60.1%) and net working capital came to EUR –127.6m as of the reporting date (prior year: EUR –2.6m). The company achieved the key performance indicator targets set by management in both the fiscal year and in the prior year.

COLLATERAL

Zalando pledged financial assets of EUR 12.9m as collateral in the reporting period (prior year: EUR 14.0m). 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.

(2.) 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 59.2m as of the reporting date (prior year: EUR 40.1m). Of this amount, EUR 59.2m (prior year: EUR 40.1m) 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, 2015: EUR 0.0m). However, trade receivables from related parties amount to EUR 0.4m.

Merchandise of EUR 122.7m was ordered from related parties in the reporting period. The order volume totaled EUR 98.2m in the comparative period of the prior year. In addition, goods totaling EUR 2.7m were sold to related parties. The cost of services received came to EUR 0.3m in the reporting period (prior year: EUR 0.5m).

Furthermore, there are loan receivables against a related party totaling EUR 3.5m.

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:

MEMBERS OF THE MANAGEMENT BOARD → 91

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

MEMBERS OF THE SUPERVISORY BOARD → 92

Supervisory Board	Profession held	Member of the Supervisory Board since
Lothar Lanz (Chairperson of the Supervisory Board)	Supervisory Board member, in particular Axel Springer SE, Berlin	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
Kai-Uwe Ricke	Entrepreneur	June 3, 2014
Alexander Samwer	Entrepreneur and founder	Dec 12, 2013
Konrad Schäfers	Product Manager ZALANDO SE, Berlin	June 2, 2015
Dylan Ross	Lead of Men's Nordic Buying Office ZALANDO SE, Berlin	June 2, 2015
Beate Siert	Interim Lead Sourcing & Recruiting Core ZALANDO SE, Berlin	June 2, 2015
Jørgen Madsen Lindemann	President & CEO of Modern Times Group MTG AB, Stockholm, Sweden	May 31, 2016

Further information
Report of the Supervisory Board p. 8

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

The members of the Management Board and Supervisory Board only receive remuneration relating to their function as persons in key positions. In fiscal year 2016, expenses of EUR 5.9m were recorded for the members of management who hold key positions in the group (prior year: EUR 8.4m). Of this amount, EUR 5.3m is attributable to share-based payment awards in fiscal year 2016 (prior year: EUR 7.8m). The expenses for share-based payment awards are calculated using graded vesting, which means that the planned 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 Section 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 0.6m in fiscal year 2016 (prior year: EUR 0.7m). No new option rights were granted to the Management Board in fiscal year 2016 (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.

Further information
Remuneration Report p. 61

The members of the Supervisory Board received remuneration of EUR 0.6m in fiscal year 2016 (prior year: EUR 0.6m). 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.

(3.) CORPORATE GOVERNANCE DECLARATION

The declaration by the Management Board and the Supervisory Board regarding the Corporate Governance Code pursuant to Section 161 AktG of December 2016 is published on the company's website.

(4.) AVERAGE NUMBER OF EMPLOYEES

The average number of employees by individual business unit as of the reporting date is presented below:

AVERAGE NUMBER OF EMPLOYEES → 93

	2016	2015
Commercial	1,347	1,058
Operations	6,620	5,885
Technology	1,439	841
Other	1,630	1,420
Total	**11,036**	**9,205**

(5.) 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 34.5m in the reporting period (prior year: EUR 28.5m). Future minimum lease payments under non-cancelable operating leases are shown in the following table:

FUTURE MINIMUM LEASE PAYMENTS → 94

IN EUR M	Less than 1 year	1–5 years	More than 5 years	Total
Dec 31, 2016	**42.8**	**97.0**	**49.2**	**189.0**
Dec 31, 2015	26.5	92.9	54.8	174.2

The future minimum receipts from non-cancelable operating sub-leases are as follows.

FUTURE MINIMUM LEASE RECEIPTS → 95

IN EUR M	Less than 1 year	1–5 years	More than 5 years	Total
Dec 31, 2016	**0.0**	**0.0**	**0.0**	**0.0**
Dec 31, 2015	0.1	0.0	0.0	0.1

(6.) INFORMATION REGARDING THE AUDITOR

The consolidated financial statements and the annual financial statements of ZALANDO SE for the fiscal year from January 1 to December 31, 2016 were audited by Ernst & Young GmbH Wirtschaftsprüfungsgesellschaft, Stuttgart. The lead auditors were Dr. Ingo Röders (since 2013) and Mr. Sebastian Haas (since 2016). Ernst & Young GmbH Wirtschaftsprüfungsgesellschaft, Stuttgart, may audit the financial statements of the company until 2023, after which the audit has to be put out for tender.

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 0.5m),
- EUR 0.3m for other assurance services (prior year: EUR 0.2m) and
- EUR 0.0m for other services (prior year: EUR 0.1m).

(7.) SHAREHOLDINGS

ZALANDO SE's direct and indirect shareholdings in its subsidiaries as of December 31, 2016 can be summarized as follows:

LIST OF SHAREHOLDINGS → 96 G4-17

No.	Company	Company domicile	Currency	Share of equity held by*	Share in capital in % 2016
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

→ 97

NO.	Company	Company domicile	Currency	Share of equity held by*	Share in capital in % 2016
10	Zalando Payments SE & Co. KG (formerly: 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	Zalando Outlets GmbH (formerly: zOutlet Berlin GmbH and zOutlet Frankfurt GmbH)	Berlin	EUR	Directly	100.0
14	Zalando Ireland Ltd.	Dublin, Ireland	EUR	Directly	100.0
15	Zalando Finland Oy	Helsinki, Finland	EUR	Directly	100.0
16	Zalando adtech lab GmbH (formerly Metrigo GmbH)	Hamburg	EUR	Directly	100.0
17	Bread&Butter GmbH & Co. KG	Berlin	EUR	Directly	100.0
18	Portokali Property Development III SE & Co. KG	Berlin	EUR	Directly 2	99.0 1.0
19	Fashion Connectivity Technologies GmbH	Berlin	EUR	Directly	100.0
20	Mobile Fashion Discovery GmbH	Berlin	EUR	Directly	100.0
21	Zalando Media Solutions GmbH	Berlin	EUR	Directly	100.0
22	Bread&Butter Tradeshow Verwaltungs GmbH	Berlin	EUR	18	100.0
23	zLabels Trading Ltd.	Hong Kong, Hong Kong	HKD	1	100.0
24	zLabels China Trading Co. Ltd.	Dongguan City, China	CNY	23	100.0
25	ifansho Holding GmbH	Berlin	EUR	Directly	100.0
26	nugg.ad GmbH	Berlin	EUR	21	100.0
27	Zalando Logistics Operations Polska sp. z o.o.	Warsaw, Poland	PLN	2	100.0
28	Tradebyte Software GmbH	Ansbach	EUR	Directly	100.0
29	Zalando Logistics Polska sp. z o.o.	Warsaw, Poland	PLN	2	100.0
30	Zalando Lounge Logistics SE & Co. KG	Berlin	EUR	Directly 2	99.0 1.0
31	zLabels Trading Southern Europe S.L.	Torrellano (Elche), Spain	EUR	1	100.0
32	zLabels LP GmbH i.G.	Berlin	EUR	1	100.0
Associated companies					
33	Anatwine Ltd.	Cheltenham, United Kingdom	GBP	Directly	36.4
34	Le New Black SAS	Paris, France	EUR	25	33.2

*) The number refers to the number of the company.

(8.) 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, Zalando Outlets GmbH, Zalando Fashion Entrepreneurs GmbH, Zalando adtech lab GmbH, and Zalando Media Solutions GmbH are exempt from the requirement to disclose their financial statements and to prepare notes to the financial statements and a management report.

(9.) 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 IFRS.

ZALANDO SE's internal reporting structure was initially based 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), Rest of Europe (Belgium, Denmark, Finland, France, Italy, Luxembourg, Netherlands, Norway, Poland, Spain, Sweden, and United Kingdom) and Other. 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 IFRS. 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 2016

→ 98

IN EUR M	DACH	Rest of Europe	Other	Total 2016
Revenue	1,813.8	1,570.2	255.1	3,639.0
Cost of sales	–933.3	–948.9	–147.4	–2,029.6
Gross profit	**880.4**	**621.3**	**107.7**	**1,609.4**
Selling and distribution costs	–576.1	–554.1	–93.5	–1,223.7
Administrative expenses	–89.8	–78.5	–23.0	–191.3
Other operating income	8.9	6.9	0.9	16.7
Other operating expenses	–2.1	–1.8	–0.2	–4.1
Earnings before interest and taxes (EBIT)	**221.4**	**–6.2**	**–8.1**	**207.0**

SEGMENT REPORTING 2015 → 99

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**

Of the total revenue generated in the DACH region, Germany accounts for 61.9% (prior year: 65.3%). In the Other reporting segment, Germany accounts for 39.2% of total revenue (prior year: 42.4%). The non-current assets of the group are mainly located in Germany.

Cost of sales include valuation allowances of inventories for the DACH segment of EUR 41.5m (prior year: EUR 38.3m), for the Rest of Europe segment of EUR 42.2m (prior year: EUR 34.0m) and and for the Other segment of EUR 11.6m (prior year: EUR 7.6m)

The selling and distribution costs contain valuation allowances of trade receivables and write-downs due to uncollectible receivables for the DACH segment of EUR 14.1m (prior year: EUR 76.0m), for the Rest of Europe segment of EUR 7.6m (prior year: EUR 27.4m), and for the Other segment of EUR 1.1m (prior year: EUR 1.6m).

Total expenses include depreciation and amortization of property, plant and equipment and intangible assets for the DACH segment of EUR 21.5m (prior year: EUR 18.8m), for the Rest of Europe segment of EUR 17.3m (prior year: EUR 13.0m), and for the Other segment of EUR 9.5m (prior year: EUR 2.4m).

The other operating income includes fair value changes from an interest in the proceeds from the sale of developed land owned by third parties. These changes are allocated as follows.

NON-OPERATING ONE-TIME EFFECTS BY SEGMENT

→ 100

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

The group's financial result is not allocated to the segments.

(10.) 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.

(11.) 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 24, 2017.

Berlin, February 24, 2017

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 24, 2017

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, 2016. The preparation of the consolidated financial statements and the combined management report in accordance with IFRS as adopted by the EU and the additional requirements of German commercial law pursuant to Sec. 315a (1) HGB ["Handelsgesetzbuch": German Commercial Code] are the responsibility of the parent 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 Sec. 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 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 IFRS as adopted by the EU, and the additional requirements of German commercial law pursuant to Sec. 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, complies with the legal requirements 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 24, 2017

Ernst & Young GmbH
Wirtschaftsprüfungsgesellschaft

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

04

SERVICE

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 and other non-operating one-time effects.

ADJUSTED EBITDA

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

ADJUSTED FULFILLMENT COST RATIO

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

ADJUSTED MARKETING COST RATIO

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

APPS

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

AVERAGE BASKET SIZE

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

AVERAGE ORDERS PER ACTIVE CUSTOMER

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

BRAND SHOP

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

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

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

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

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

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

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

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

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

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

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.

INTEGRATED COMMERCE

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

MOBILE COMMERCE

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

MOBILE VISIT SHARE (AS % OF SITE VISITS)

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

M.SITES

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

NET WORKING CAPITAL

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

NUMBER OF ORDERS

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

PRIVATE LABELS

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

PURPOSE

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

SITE VISITS

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

SMART DATA

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

SOCIAL MEDIA

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

T.SITES

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

ZALON

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

04.2

GRI INDEX

GRI G4 INDEX

→ 101

	G4 Standard Disclosure	Inclusion	Page	Comments	Zalando Material Aspect	Aspect Limitations	
						within	outside
General Standard Disclosure							
Strategy and Analysis							
G4-1	Statement of most senior decision-maker	Fully	6–7				
Organizational Profile							
G4-3	Name of the organization	Fully	75				
G4-4	Primary brands, products and services	Fully	75				
G4-5	Location of the organizations headquarters	Fully	75, 115				
G4-6	Countries with significant operations	Fully	35, 75				
G4-7	Nature of ownership and legal form	Fully	76				
G4-8	Markets served	Fully	75				
G4-9	Scale of the organization	Fully	25, 116–117	Further information is considered to be confidential.			
G4-10	Employees by employment type, gender and region	Partly	25–26	More detailed information is deemed as not material.			
G4-11	Percentage of employees covered by collective bargaining agreements	Fully		Currently we have no existing collective bargaining agreements.			
G4-12	Description of the supply chain	Fully	34–35				
G4-13	Significant changes during the reporting period	Fully	75				
G4-14	Implementation of the precautionary principle	Fully	47, 98–112				
G4-15	External initiatives that the organization endorses	Fully	24, 28, 36				
G4-16	Significant memberships in industry and business associations	Fully	24, 28, 37				

→ 102

	G4 Standard Disclosure	Inclusion	Page	Comments	Zalando Material Aspect	Aspect Limitations	
						within	outside
Identified Material Aspects and Boundaries							
G4-17	Entities included in the consolidated financial statements	Fully	76, 183 – 185				
G4-18	Process for defining the report content	Fully	22				
G4-19	Material aspects identified	Fully	22				
G4-20	Aspect boundaries within the organization	Fully	GRI index				
G4-21	Aspect boundaries outside the organization	Fully	GRI index				
G4-22	Restatements of information provided in previous reports	Fully		This is our first report prepared in accordance with the option “core” of the latest G4 guidelines.			
G4-23	Significant changes in the scope and aspect boundaries	Fully		This is our first report prepared in accordance with the option "core" of the latest G4 guidelines.			
Stakeholder Engagement							
G4-24	Stakeholder groups engaged	Fully	24				
G4-25	Identification and selection of stakeholders	Fully	24				
G4-26	Approach to stakeholder engagement and frequency	Fully	24				
G4-27	Key topics and concerns raised through stakeholder engagement and response	Fully	22	As the materiality analysis was the most intense stakeholder engagement we conducted so far, we consider our material topics to be the key topics that stakeholders have raised.			
Report Profile							
G4-28	Reporting period	Fully	20				
G4-29	Date of the most recent previous report	Fully		March 2016			
G4-30	Reporting cycle	Fully		Annually			
G4-31	Contact point for questions regarding the report	Fully	208				
G4-32	GRI “In accordance” option chosen	Fully	20				
G4-33	External verification of the report	Fully		In our first year of GRI reporting, we did not externally verify the information provided. We are currently enhancing our processes to prepare for future verification by our internal audit team and external auditors.			

→ 103

	G4 Standard Disclosure	Inclusion	Page	Comments	Zalando Material Aspect	Aspect Limitations	
						within	outside
Governance							
G4-34	Governance structure, incl. committees of the highest governance bodies	Fully	21, 51 – 56				
Ethics and Integrity							
G4-56	Values, principles, standards and norms of behavior	Fully	47, 49	Our company values were reassessed during the preparation time of the annual report. The results will be published online soon.			
Specific Standard Disclosure							
Economic							
Economic Performance					**Additional**		
G4-DMA		Fully	116 – 120	This aspect is reported in addition to those identified in the materiality analysis.			
G4-EC1	Direct economic value created and distributed	Fully	116				
Environmental							
Materials					**Energy & Resource Efficiency**	**X**	**X**
G4-DMA		Fully	43 – 44				
G4-EN2	Percentage of materials that are recycled input materials	Partly	43	Currently we can only provide the percentage of recycled input material for packaging.			
Energy					**Energy & Resource Efficiency**	**X**	
G4-DMA		Fully	42 – 43				
G4-EN3	Energy consumption within the organization	Fully	42				

→ 104

	G4 Standard Disclosure	Inclusion	Page	Comments	Zalando Material Aspect	Aspect Limitations	
						within	outside
Water					**Energy & Resource Efficiency**		**X**
G4-DMA				We are aware that water, an increasingly scarce natural resource, is used while making our goods, from fibre-production to dyeing and washing. While our work has been focused on the people in our supply chain we are planning to conduct an assessment of our key environmental impacts to begin making environmental improvements along our value chain.			
Emissions					**Climate Protection**	**X**	**X**
G4-DMA		Fully	40–41				
G4-EN15	Direct greenhouse gase (GHG) emissions (Scope 1)	Fully	40				
G4-EN16	Energy indirect greenhouse gase (GHG) emissions (Scope 2)	Fully	40				
G4-EN17	Other indirect greenhouse gase (GHG) emissions (Scope 3)	Fully	40				
G4-EN18	Greenhouse gas (GHG) emissions intensity	Fully	41	We chose the number of parcels as the denominator of the intensity ratio.			
Effluents and waste					**Waste and Recycling**	**X**	**X**
G4-DMA		Fully	44				
G4-EN23	Total weight of waste by type and disposal method	Fully	44				
Products and Services					**Waste and Recycling**	**X**	**X**
G4-DMA		Partly	39, 44				
G4-EN27	Mitigation of environmental impacts of products and services	Partly	39	To reduce the environmental impact of our products, we increase the number of sustainable products that we offer to our customers.			
G4-EN28	Reclaimed products and packaging	Partly	44	Currently we can only provide the percentage of recycled input material for packaging.			

→ 105

	G4 Standard Disclosure	Inclusion	Page	Comments	Zalando Material Aspect	Aspect Limitations	
						within	outside
Transport					**Ecological Logistics**	**X**	**X**
G4-DMA		Fully	41				
G4-EN30	Significant environmental impacts of transporting products	Fully	41				
Social							
Labor Practices and Decent Work							
Employment					**Working Conditions**	**X**	
G4-DMA		Fully		The aspect is described throughout the entire CR chapter, especially on p. 25-34.			
G4-LA1	New employee hires and employee turnover	Fully	26				
G4-LA2	Benefits provided to full-time employees	Fully	31		**Remuneration**		
G4-LA3	Return to work and retention rates after parental leave	Partly	30	We are enhancing our data collection processes to fully comply with this indicator in the future.	**Diversity and Equal Opportunity**		
Labor / Management Relations					**Working Conditions**	**X**	
G4-DMA		Fully		The aspect is described throughout the entire CR chapter, especially on p. 25-34.			
G4-LA4	Minimum notice period(s) regarding operational changes	Partly		We adhere to all legal requirements regarding minimum notice periods prior to operational changes. Work councils are always involved in decision making processes that lead to operational changes.			
Occupational Health and Safety					**Health and Safety**	**X**	
G4-DMA		Fully	33 – 34				
G4-LA6	Injuries, occupational diseases, lost days, and work-related fatalities	Partly	33	We are enhancing our data collection processes to fully comply with this indicator in the future.			

→ 106

	G4 Standard Disclosure	Inclusion	Page	Comments	Zalando Material Aspect	Aspect Limitations	
						within	outside
Training and Education					**Employee development**	**X**	
G4-DMA		Fully	30				
G4-LA10	Programs that support the continued employability of employees	Fully	31				
G4-LA11	Percentage of employees receiving regular performance and career development reviews	Partly	31				
Diversity and Equal Opportunity					**Diversity**	**X**	
G4-DMA		Fully	27 – 30				
G4-LA12	Composition of governance bodies and breakdown of employees by aspect of diversity	Partly	29	Only information on gender and nationality is deemed material.			
Equal Remuneration for Women and Men					**Remuneration**	**X**	
G4-DMA		Partly	31				
G4-LA13	Ratio of basic salary and remuneration of women to men			We consider this indicator to be very important, but cannot report the ratio in 2016. We will work on methods to measure equal remuneration of women and men to be able to comply with this indicator in the future.			
Supplier Assessment for Labor Practices					**Working Conditions**	**X**	**X**
G4-DMA		Fully	36 – 37				
G4-LA14	Percentage of new suppliers that were screened using labor practices criteria	Fully	32, 36 – 37	100% of new suppliers of our private labels are screened using labor practice criteria. Orders can only be placed if all ethical requirements are met.			
Labor Practices Grievance Mechanisms					**Working Conditions**	**X**	**X**
G4-DMA		Fully	47				
G4-LA16	Grievances about labor practices	Fully	47				

→ 107

	G4 Standard Disclosure	Inclusion	Page	Comments	Zalando Material Aspect	Aspect Limitations	
						within	outside
Human Rights							
Non-Discrimination					**Human Rights**	**X**	**X**
G4-DMA		Fully	30				
G4-HR3	Incidents of discrimination and corrective actions taken	Partly	30	The number of incidents is considered to be confidential.			
Freedom of Association and Collective Bargaining					**Human Rights**	**X**	**X**
G4-DMA		Fully	32, 36 – 37				
G4-HR4	Operations and suppliers identified in which the right to exercise freedom of association may be violated or at risk, and measures taken	Partly	36 – 37	We have identified no own operations in which the right to exercise freedom of association may be violated or at risk. Regarding suppliers, we created a country-based risk matrix to understand which risk is highest in which countries and to set up corresponding actions with suppliers in the respective countries.			
Child Labor					**Human Rights**		**X**
G4-DMA		Fully	36 – 37				
G4-HR5	Operations and suppliers having significant risk for incidents of child labor, and measures taken	Partly	36 – 37	We developed a country-based risk matrix to understand which risk is highest in which countries and set up corresponding actions with suppliers to abolish child labor in the respective countries.			
Forced or Compulsory Labor					**Human Rights**		**X**
G4-DMA		Fully	36 – 37				
G4-HR6	Operations and suppliers having significant risk for incidents of forced or compulsory labor, and measures taken	Partly	36 – 37	We developed a country-based risk matrix to understand which risk is highest in which countries and set up corresponding actions with suppliers to abolish forced and compulsory labor in the respective countries.			

→ 108

	G4 Standard Disclosure	Inclusion	Page	Comments	Zalando Material Aspect	Aspect Limitations	
						within	outside
Supplier Human Rights Assessment					**Human Rights**	**X**	**X**
G4-DMA		Fully	36 – 37				
G4-HR10	Percentage of new suppliers that were screened using human rights criteria	Fully	36 – 37	100% of new suppliers of our private labels are screened using human rights criteria. Orders can only be placed if all ethical requirements are met.			
Society							
Local Communities					**Community Engagement**	**X**	**X**
G4-DMA		Fully	45				
G4-SO1	Percentage of operations with implemented local community engagement, impact assessments, and development programs	Partly	45	We have implemented local community engagement programs, but we haven't developed methodologies for impact assessment yet.			
Anti-Corruption					**Additional**		
G4-DMA		Fully	47, 51, 98	This aspect is reported in addition to those identified in the materiality analysis.			
G4-SO3	Operations assessed for risks related to corruption and the significant risks identified	Fully	47				
G4-SO4	Communication and training on anti-corruption policies and procedures	Fully	47				
Public Policy					**Additional**		
G4-DMA		Fully		This aspect is reported in addition to those identified in the materiality analysis. Politicians are important stakeholders that we regularly engage with.			
G4-SO6	Total monetary value of financial and in-kind political contributions	Fully		There have been no political contributions in 2016.			
Supplier Assessment for Impacts on Society					**Community Engagement**	**X**	**X**
G4-DMA				So far we cannot provide numbers on assessments regarding suppliers' impact on society, but will work on solutions to comply with this indicator in the future.			

→ 109

	G4 Standard Disclosure	Inclusion	Page	Comments	Zalando Material Aspect	Aspect Limitations	
						within	outside
Product Responsibility							
Customer Health and Safety					**Product Safety**	X	X
G4-DMA		Fully	37 – 38				
G4-PR1	Percentage of significant product and service categories for which health and safety impacts are assessed	Fully		100% of product categories are assessed for risks and improvement possibilities e.g. regarding health and safety impacts by our product safety teams			
G4-PR2	Incidents of non-compliance with regulations and voluntary codes concerning health and safety impacts of products and services	Partly	38				
Product and Service Labeling					**Product Transparency**	X	X
G4-DMA		Fully	39				
G4-PR3	Principles and processes for product labeling and scope of application	Fully	39				
Marketing Communications					**Animal Welfare & Biodiversity**	X	X
G4-DMA		Fully	37				
G4-PR6	Sale of banned or disputed products	Fully	37	At Zalando we require that all materials containing animal parts come from suppliers with good animal husbandry. By good husbandry we understand the application of the Five Freedoms on Animal Welfare.			
Customer Privacy					**Data protection**	X	X
G4-DMA		Fully	47				
G4-PR8	Substantiated complaints regarding breaches of customer privacy and losses of customer data	Partly	47	Further information is considered to be confidential.			

04.3 LIST OF CHARTS AND TABLES

04.3.1 CHARTS

COMPANY

COMBINED MANAGEMENT REPORT

04.3.2 TABLES

COMPANY

COMBINED MANAGEMENT REPORT

CONSOLIDATED FINANCIAL STATEMENTS

SERVICE

04.4 FINANCIAL CALENDAR 2017

FINANCIAL CALENDAR → 110

Date	Event
Tuesday, May 9	Publication of the first quarter results 2017
Wednesday, May 31	Annual general meeting 2017
Monday, June 19 / Tuesday, June 20	Capital Markets Day 2017
Thursday, August 10	Publication of the second quarter results 2017
Tuesday, November 7	Publication of the third quarter results 2017

04.5 IMPRINT

EDITORIAL TEAM AND CONTACT

ZALANDO SE
Tamara-Danz-Straße 1
10243 Berlin
https://corporate.zalando.com/en

INVESTOR RELATIONS

Birgit Opp / VP Corporate Finance and Investor Relations
investor.relations@zalando.de

CORPORATE COMMUNICATIONS

René Gribnitz / VP Communications
Milena Ratzel / Project Lead
press@zalando.com

CONCEPT, TEXT AND LAYOUT

With the collaboration of MPM Corporate Communication Solutions, Mainz

PHOTO CREDITS

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

PRINT

EBERL Print, Immenstadt

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.

zalando