Annual Report 2018

zalando

Location Map of Europe

About Zalando

Founded in 2008, Zalando is Europe's leading online platform for fashion and lifestyle, connecting customers, brands and partners. We bring head-to-toe fashion to more than 26 million active customers across 17 markets, offering clothing, footwear, accessories and beauty. Around 2,000 brands are currently offered by Zalando, from world famous names to local labels, as well as our own products. Our platform is a one-stop fashion destination for inspiration, innovation and interaction. As Europe's most fashionable tech company, we work hard to find digital solutions for every aspect of the fashion journey: for our customers, partners and every valuable player in the Zalando story. Our goal is to become the starting point for fashion.

Location Map of Germany

Segment Figures

		2018	2017
Earnings position segments			
Revenue Fashion Store	IN EUR M	4,967.7	4,150.5
Adjusted EBIT Fashion Store	IN EUR M	162.0	213.7
Adjusted EBIT Fashion Store	IN % OF REVENUE	3.3	5.2
Revenue Offprice	IN EUR M	497.5	345.3
Adjusted EBIT Offprice	IN EUR M	35.2	27.6
Adjusted EBIT Offprice	IN % OF REVENUE	7.1	8.0
Revenue all other segments	IN EUR M	444.8	345.3
Adjusted EBIT all other segments	IN EUR M	–24.4	–26.3
Adjusted EBIT all other segments	IN % OF REVENUE	–5.5	–7.6

Zalando at a Glance

Key Figures

	Jan 1 – Dec 31, 2018	Jan 1 – Dec 31, 2017	Change
Group key performance indicators			
Site visits (in millions)	3,137.2	2,563.5	22.4%
Mobile visit share (in %)	79.3	70.7	8.7pp
Active customers (in millions)	26.4	23.1	14.4%
Number of orders (in millions)	116.2	90.5	28.4%
Average orders per active customer	4.4	3.9	12.3%
Average basket size (in EUR)	61.0	64.5	–5.4%
Results of operations			
Revenue (in EUR m)	5,387.9	4,489.0	20.0%
EBIT (in EUR m)	119.2	187.6	–36.5%
EBIT (as % of revenue)	2.2	4.2	–2.0pp
Adjusted EBIT (in EUR m)	173.4	215.1	–19.4%
Adjusted EBIT (as % of revenue)	3.2	4.8	–1.6pp
EBITDA (in EUR m)	205.7	246.4	–16.5%
EBITDA (as % of revenue)	3.8	5.5	–1.7pp
Adjusted EBITDA (in EUR m)	259.9	273.8	–5.1%
Adjusted EBITDA (as % of revenue)	4.8	6.1	–1.3pp
Financial position			
Net working capital (in EUR m)	–84.3	–62.4	35.1%
Equity ratio (as % of total liabilities)	47.9	51.6	–3.7pp
Cash flow from operating activities (in EUR m)	212.8	193.7	9.8%
Cash flow from investing activities (in EUR m)	–207.0	–88.3	134.3%
Free cash flow (in EUR m)	–13.8	–85.0	–83.8%
Capex (in EUR m)	–278.4	–243.9	14.2%
Cash and cash equivalents (in EUR m)	995.0	1,065.5	–6.6%
Other			
Employees (as of the reporting date)	15,619	15,091	3.5%
Basic earnings per share (in EUR)	0.21	0.42	–50.0%

pp = percentage points

Active in 17
European markets

Around 2,000
brands

Employees from more than 130
nations

Zalando.

The Starting Point for Fashion.

corporate.zalando.com

Co

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Company

01

Rubin Ritter **David Schneider** **Robert Gentz**

Dear Shareholders,

2018 was in many ways a remarkable year for Zalando. Celebrating our 10th birthday in September offered an opportunity to look back at many important milestones along the way of growing Zalando to the company it is today. Personally, the Zalando birthday was a moment for self-reflection. The development of Zalando has surpassed all of our dreams and expectations, and we are deeply thankful to everyone who has contributed to this great story.

While our 10th birthday marks the end of our first decade, it more importantly marks the beginning of our next decade. The opportunity in front of us remains impressive: The European Union is home to a population of more than 512 million people, with an annual fashion spend of 430 billion euros. Today, we serve just north of 1.6% of this demand, and while many consider us a large company, we still consider Zalando a small company compared to our potential. We believe that we will be able to play an even more important role in the lives of our customers, building deeper relationships with them. Our goal is to become the starting point for fashion.

Zalando is driven by the fundamental conviction that a platform business model relying on the collective talent of the fashion world is the key to success. Building deep relationships with European fashion customers will make us even more relevant for our brand partners. And only in partnership with the leading brands will we be able to curate the most interesting assortment and content for customers to enjoy.

2018 also had challenging moments. We used these as opportunities to learn and further focus our strategy.

Our 10th anniversary reminded us to think in longer time periods than quarters or seasons. When we hit challenging times, we worked hard to fix problems that needed fixing, but at the same time we made sure that our team focused on what really matters: the needs of our customers and how we intend to serve them in the future. That way, having a bad quarter never kept us from having a great decade.

The opportunities and tasks ahead are considerable, but we are convinced we will master them with relentless customer focus, speed and a highly skilled team of more than 15,500 talents that embrace challenges as opportunities, think like entrepreneurs and always act with the customer in mind.

We’re excited to take you along with us.

Berlin, February 25, 2019

Robert Gentz David Schneider Rubin Ritter

1.2 Corporate Responsibility

1.2.1 do.THINK Ahead

- Corporate responsibility and sustainability are increasingly important drivers of business success at Zalando, and it is our bold ambition to become a leading online destination for sustainable fashion in Europe by 2020.
- We want to run our business responsibly and use our tech and fashion expertise to enable our customers, brands and the industry to make more sustainable choices.
- For the first time, we are reporting transparently and comprehensively on the clear targets we set in 2017 for each of our four do.STRATEGY focus areas: employees, products, environment and society.

Welcome from Rubin Ritter

GRI 102-14

"2018 was a landmark year for Zalando as we celebrated our 10th anniversary. Since 2008, we have worked hard to make Zalando the company it is today: Europe's leading online platform for fashion and lifestyle, which provides access to exciting products and great service to millions of customers.

As we look ahead to the next ten years, we know that sustainability will be an even more important driver of our future business success. As part of our strategy, we want to take responsibility for our environmental and social impacts and embrace the opportunities associated with economic, environmental and social developments.

We are eager to continue learning how we can run our business responsibly and enable customers, brands and the industry to make more sustainable choices. In 2018, we worked hard towards contributing to systemic changes in our industry and achieving our targets in four key areas – employees, products, environment and societal engagement. We are proud that our efforts are being recognized. This year, Zalando was named Germany's most valuable fashion retailer in a study assessing societal contributions of companies from several industries.[1]

Going forward, we will focus even more on three key areas where we believe we can and need to have an impact. The first area is the sustainability of e-commerce. We are focusing our efforts on reducing our carbon footprint across customer deliveries, energy and travel, and we are optimizing packaging to reduce waste. This year, we achieved a reduction of 16% in our carbon footprint, switched to almost 100% green energy in Germany and Poland and participated for the first time in the CDP[2] rating. Using our expertise in fashion and technology, we believe we can also play an important role in driving change in the industry going further.

1) https://www.imwf.de/pressemitteilung/deutschlands-wertvollste-unternehmen-studie-untersucht-firmen-aus-drei-branchen-auf-gesellschaftlichen-mehrwert/, https://fashionunited.ch/nachrichten/einzelhandel/zalando-ist-deutschlands-wertvollster-modehaendler/2018082915581
2) Previously Carbon Disclosure Project

The second area is sustainable fashion: We know that many customers want to make more sustainable fashion choices. As a platform with more than 26 million active customers in 17 countries and around 2,000 brands, we have the opportunity to connect millions of customers to more sustainable fashion products, making it easier, more convenient and more inspiring for customers to find and choose sustainable fashion. Brand collaborations like our RE:CYCLE collection with Viktor&Rolf and improving the visibility of sustainability information in our Fashion Store are just two steps toward our bold ambition to become a leading online destination for sustainable fashion in Europe by 2020.

zln.do/en-sustainability

The third is supply chain transparency. We are convinced that the use of digital technology can help the entire industry overcome one of its greatest challenges: creating more transparency along complex value chains in order to protect human rights, decent work and the environment. With our newly founded zImpact program, we are systematically investing in innovative solutions that help to create this transparency along the value chain for the good of all. We have already identified more than 70 promising organizations that use digital technologies, for example to enable the complete traceability of raw materials or to make the origin of products comprehensible to customers.

zln.do/en-supply-chain

Of course, we could not have done this without the tremendous effort of the Zalando team, and we remain committed to building a place to thrive and investing in development opportunities for our people as well as good leadership. In 2018, we launched a new strategy to become a more diverse and inclusive workplace, focusing among other things on achieving greater gender diversity within leadership. We have taken the first steps by debiasing our promotion process, which led to more fairness and increased the share of women being promoted within leadership positions compared to 2017 numbers, and by launching a new internal mentorship program.

We know that we are just at the beginning of our journey to become a more sustainable company, and we value the power of partnership and collaboration along this way. Your feedback on our latest report is both encouraged and appreciated."

zln.do/en-CR-Contact

Rubin Ritter

Our do.STRATEGY

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

Our do.STRATEGY → 1

do.STRATEGY vision

By running our business responsibly and enabling customers, brands and the industry to make more sustainable choices, we are helping to reimagine fashion for the good of all.

do.GROW

Employees

We aim to provide a workplace for the future and impact the future of work.

By building a place to thrive and investing in development opportunities for our people as well as great leadership.

→ Specific targets and our progress from p. 14 onward

do.KNOW

Products

We aim to contribute to a more sustainable fashion industry.

By connecting millions of customers to a better choice of and improved information on more sustainable fashion.

→ Specific targets and our progress from p. 21 onward

do.PROTECT

Environment

We aim to decouple our environmental footprint from our economic growth.

By improving sustainability in our offices, operations and packaging.

→ Specific targets and our progress from p. 30 onward

do.CONNECT

Societal Engagement

We aim to reimagine how corporations contribute to societal challenges.

By teaming up with relevant stakeholders to bring existing solutions to scale.

→ Specific targets and our progress from p. 36 onward

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

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

How We Manage Sustainability

Strategic responsibility for Corporate Responsibility (CR) within Zalando lies with the Management Board, supported by the General Counsel. The CR Team, which reports to the General Counsel, drives the implementation of the do.STRATEGY and collaborates closely with our colleagues in other teams across Zalando. The Management Board receives updates twice a year, if not more frequently, about the overall progress with relation to our do.STRATEGY and also provides guidance on specific sustainability topics. We formed committees to steer specific focus topics such as sustainability at zLabels and environmental management. These steering committees meet on a quarterly basis and are attended by senior management and at least one member of the Management Board.

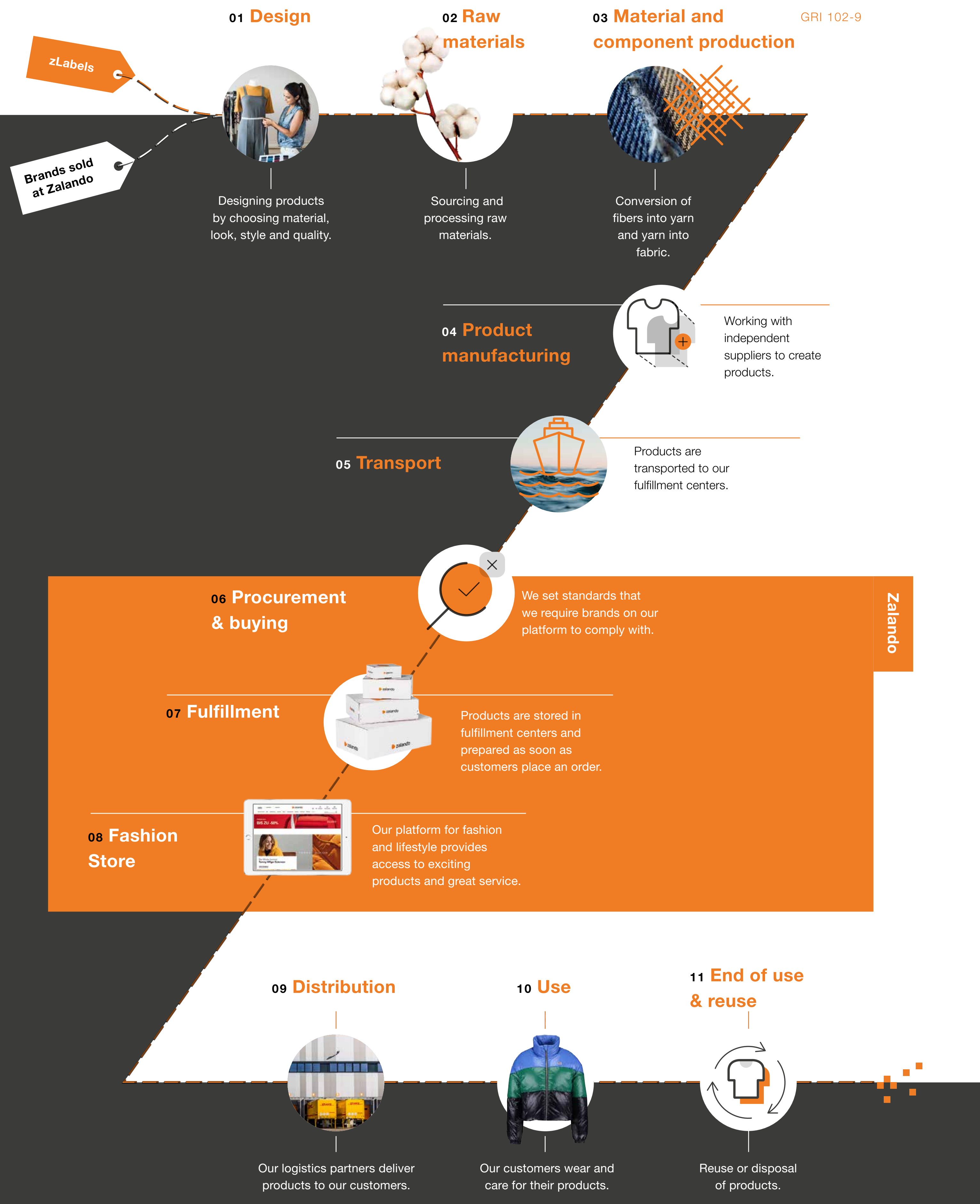
GRI 102-18

We strive to manage sustainability risks and opportunities as strategically and effectively as possible. This means embedding sustainability priorities and principles into the roles and responsibilities of various teams; turning internal experts into co-creators of more sustainable solutions. For example, the CR Team collaborates with Category Buying Teams to drive the growth of sustainable fashion in the Fashion Store and with the Packaging Team to improve the sustainability of our packaging.

Depending on the issue, the level of influence we have and our impact, we try to develop own internal solutions or partner up with external stakeholders. Beyond Zalando, we closely collaborate with partners as well as brands and international organizations, such as the Sustainable Apparel Coalition and Fashion For Good, to drive system change in our industry.

GRI 102-12
GRI 102-13
GRI 102-42
GRI 102-43

GRI 102-9


zLabels
Brands sold at Zalando
01 Design
Designing products by choosing material, look, style and quality.
02 Raw materials
Sourcing and processing raw materials.
03 Material and component production
Conversion of fibers into yarn and yarn into fabric.
04 Product manufacturing
Working with independent suppliers to create products.
05 Transport
Products are transported to our fulfillment centers.
06 Procurement & buying
We set standards that we require brands on our platform to comply with.
Zalando
07 Fulfillment
Products are stored in fulfillment centers and prepared as soon as customers place an order.
08 Fashion Store
Our platform for fashion and lifestyle provides access to exciting products and great service.
09 Distribution
Our logistics partners deliver products to our customers.
10 Use
Our customers wear and care for their products.
11 End of use & reuse
Reuse or disposal of products.

Materiality and Reporting Standards Applied

The content of our report is based on our latest materiality analysis that we finalized in 2015. In order to identify the most material topics for Zalando, we conducted a media analysis, surveys among 5,000 customers and 1,200 employees and further internal workshops. The analysis resulted in 16 material topics.

GRI 102-46
GRI 102-47

With the exception of our non-financial report 2018, we apply international standards of the Global Reporting Initiative (GRI) to our CR reporting. This report has been prepared in accordance with the GRI Standards: Core option. Readers can find the full GRI Index on p. 220 of this annual report.

GRI 102-54
GRI 102-55

Non-financial report 2018

Our Non-Financial Report 2018

Our CR chapter includes our combined non-financial report for ZALANDO SE and the Zalando group in accordance with Section 289b (1) and (3) and Section 315b (1) and (3) HGB (German Commercial Code). Information of the non-financial report can be identified by the indentation of the paragraph and the black line next to the text. All information, including relevant key performance indicators (KPIs), is provided separately for ZALANDO SE and the Zalando group wherever possible.

GRI 102-1
GRI 102-5

Due to the different approach of the GRI Standards and the German implementation of the CSR Directive on Non-Financial Reporting (CSR-RUG) regarding materiality requirements, we do not apply any frameworks for our non-financial report 2018. The preselection of material topics for our non-financial report is based on the materiality analysis mentioned above. The 16 topics that we identified in that materiality analysis were assessed in terms of the business relevance and impact – positive as well as negative – of our business model on the corresponding topics. We revised the list of material topics in 2018, which led to the addition of sustainable fashion as one of the most material topics in the materiality definition of the CSR-RUG. As a result, we identified six topics that we have to report on. Relevant information on each of these topics is set out below. The information on our business model can be found in section 2.1.1 Business Model of our combined management report.

Further Information
Business Model
p. 83

Overview Non-Financial Report Zalando 2018 →3

CSR-RUG required aspects	Topic reported	Reported in
1. Employee matters	Social standards in our logistics	1.2.2 do.GROW, “Providing Fair and Decent Work in Our Logistics”, p. 19
2. Human rights	Social audits in the supply chain of our private labels	1.2.3 do.KNOW, “zLabels – Improving the Social and Environmental Footprint of Our Private Labels”, p. 24
3. Environment	Climate protection	1.2.4 do.PROTECT, “Reducing our Ecological Footprint”, p. 31
4. Social matters	Tech4transparency	1.2.5 do.CONNECT, “Using Tech for Good”, p. 38
5. Anti-corruption	Anti-corruption	1.4.2 Corporate Governance, p. 50
6. Additional: products in our sustainability category	Sustainable fashion	1.2.3 do.KNOW, “Promoting Sustainable Fashion”, p. 23

The Management Board receives updates on progress and gives guidance on our material topics twice a year, if not more frequently.

Our Risk Management Team monitors risks that might impact our business performance in bi-annual risk workshops. The Risk Management Team's scope also includes social and environmental risks. An overview of material risks and opportunities are summarized in section 2.4.4 Risk and Opportunity Report. In preparation for our non-financial report, the CR and Risk Teams jointly analyzed risks as well as potential negative impacts that emanate from our business and business relationships as well as from our products and services on the six material topics identified. As a result, we currently do not consider any net risks assessed to have a high probability and high negative impact on the material topics. The reason for this conclusion is that potential negative impacts are managed by the corresponding teams with adequate due diligence processes and measures.

GRI 102-11

Further Information
Risk and Opportunity Report
p. 110

1.2.2 do.GROW – Employees

GRI 103-1/-2/-3 MA
Employment

We want to reimagine fashion for the good of all – and that starts with caring for and empowering our own people. As we continue to grow at a rapid pace, it is crucial we stay focused on building a strong company culture that encourages employees to be their best at work. This includes promoting a diverse and inclusive workplace, creating an attractive and healthy work environment and ensuring fair and decent standards in our operations.

This is not just about doing the right thing for its own sake. We are a business with bold aspirations – aspirations that we can only achieve with our employees. That is why we are committed to building a meaningful people platform.

do.GROW Our Performance Against Targets

→ 4

	Targets	Timeline	Progress 2018	Status	Outlook 2019
Aspired outcome I: We empower people to be at their best at work.	Increase the representation of women in leadership positions to 25% on the first and 30% on the second level below the Management Board.	2022	We launched our new diversity strategy, which currently focuses on the recruitment, development and retention of women. In 2018, we saw initial progress as for example debiasing our promotion process led to more fairness and increased the share of women being promoted within leadership positions compared to 2017 numbers.		Roll out our mentoring program and implement enhanced diversity hiring measures.
	Create an attractive and healthy work environment that fosters collaboration and entrepreneurial spirit.	2019	We launched Project Health in our Logistics and Customer Care Teams and repeated our health days successfully, including workshops on mindfulness.		Roll out best practices like health talks and work toward achieving ISO 45001 standards.
	Provide fair working conditions and continuously improve standards in all fulfillment centers, regardless of location, start date or size of center.	2020	We changed our auditing company to work with local auditors at each site who are familiar with country-specific working conditions.		Review our social audit process to further increase robustness and accuracy.
Aspired outcome II: We are one of the best-led tech and fashion companies in Europe, with a meaningful people platform.	Enable continuous growth and development for each employee by creating a culture that fosters real-time performance feedback.	2020	We focused on fairness in performance evaluation and developed our own feedback tool. Our efforts resulted in significant progress: based on our employee surveys, the number of employees who feel rewarded fairly for their contributions increased by 62%.		Further simplify our performance review process and encourage peer-to-peer feedback.
	Help employees to kickstart their leadership career and provide comprehensive support to new leaders.	2019	We have launched new leadership development programs for the group and our Logistics in which almost 1,000 and 400 leads respectively took part.		Launch leadership principles and focus on our leads' ability to inspire collaboration and inclusiveness.
	Bring voluntary turnover down to 10% overall by 2020.	2020	We identified the causes of voluntary turnover through exit surveys and invested in fair performance evaluation and development opportunities to improve retention.		Enhance leadership training and development opportunities.

Started Ongoing Substantial progress Achieved

Empowering People to Be at Their Best at Work

Promoting Diversity and Inclusion

GRI 102-13
GRI 103-1/-2/-3 MA Diversity and Equal Opportunity

Whether they are a colleague or customer, we believe every person we interact with is unique and should feel both accepted and empowered to express themselves. Indeed, we are proud that our business is driven by employees representing more than 130 different nationalities. By embracing different perspectives and backgrounds, we are constantly improving our talent acquisition, making better business decisions and generating fresh ideas to help serve the varied needs of our customers. To demonstrate our commitment to diversity, this year ZALANDO SE signed the Charta der Vielfalt (Diversity Charter)[3], which we celebrated with employees across our locations on national Diversity Day.

GRI 405-1

This year, we analyzed our current diversity performance and used the insights to shape our new diversity and inclusion strategy. As a result of our research, we now streamlined our work toward achieving greater gender diversity at senior levels and within specific job groups, such as our technical roles. On top of this improved focus, we remain committed to increasing female leadership – our target is to have 25% of positions at the first level and 30% at the second level below the Management Board filled by women by 2022 (currently 11% and 16% respectively). To achieve this, we are looking at how we recruit, promote and retain staff and have hired a full-time Diversity & Inclusion Officer to drive and monitor our progress. Additionally, we have both invested in a new internal mentorship program to support leadership development for women and dedicated efforts to remove potential bias from our promotion processes. We believe these initiatives will help us nurture a more equal playing field for new and developing talent.

Family friendliness continues to be vitally important to our workforce planning and employee satisfaction. As such, we are constantly improving our support for parental leave as well as expanding the capacity of our Kita (Kindertagesstätte, or German day care facility). In Zalando Logistics, we continue to offer mom-dad shifts, a shift system designed in collaboration with our employees that flexes to fit pre-existing family routines.

As in previous years, our Diversity Guild (employee diversity network) has continued its grassroots efforts to champion diversity and inclusion throughout the company. In 2018, for example, the guild led local events in celebration of International Women's Day. Our LGBTQI+[4] employee network is also very active in supporting the community, including leading our representation at the 2018 Christopher Street Day in Berlin.

GRI 102-16
GRI 103-1/-2/-3 MA Non-Discrimination

As well as encouraging employee-led initiatives, we have tightened up our internal policies, too. Last year, we strengthened our discrimination reporting process in line with the German Equal Treatment Act and hired a Health & Equality Manager to support our ongoing compliance.

Our diversity strategy looks beyond 2018 and will focus on greater gender and national diversity in 2019 and the diversity of backgrounds while continuously supporting the inclusiveness of our culture.

3) https://www.charta-der-vielfalt.de/en/
4) LGBTQI+ stands for Lesbian, Gay, Bisexual, Transgender, Queer or Questioning, and Intersex and is inclusive of other identities of the community that are not listed.

Data key: 2018, 2017, 2016

Number of employees

2018	2017	2016
15,619	15,091	11,997

International employees

	Overall	On Management Board (MB)	1st level below MB	2nd level below MB	In leadership
2018	46%	0%	11%	35%	38%
2017	43%	0%	0%	28%	34%
2016	35%	0%	11%	29%	29%

Number of nationalities

134 131 119

Parental leave

Employees who went on parental leave:

	Men	Total	Women
2018	42%	566	58%
2017	47%	451	53%
2016	42%	363	58%

Employment types

Employees working part-time: Total (and in %)

1,635 (10%)
1,171 (8%)
890 (7%)

Thereof share women / men:

	Women	Men
2018	73%	27%
2017	75%	25%
2016	73%	27%

Share of women and men

		Overall	On Management Board (MB)	1st level below MB	2nd level below MB	In leadership
Men	2018	53%	100%	89%	84%	64%
Men	2017	53%	100%	89%	81%	65%
Men	2016	53%	100%	89%	79%	67%
Women	2018	47%	0%	11%	16%	36%
Women	2017	47%	0%	11%	19%	35%
Women	2016	47%	0%	11%	21%	33%

Age

Age groups:

	<30 years	30–50 years	>50 years
2018	29%	56%	15%
2017	30%	55%	15%
2016	32%	53%	15%

Average age: 37 37 36

Excluding logistics: 33 32 32

Share of women in specific job groups

Share of women in technical job groups:

16%
14%

Share of women in logistics:

41%
35%

Contracts

Temporary contracts: Total (and in %)

4,364 (28%)
4,984 (33%)
3,962 (33%)

Thereof share women / men:

	Women	Men
2018	48%	52%
2017	47%	53%
2016	46%	54%

GRI 102-7
GRI 102-8
GRI 405-1

Enhancing Employee Well-Being

GRI 103-1/-2/-3 MA Occupational Health and Safety

By promoting the physical, mental and social well-being of employees in all occupations, we strive to provide the right conditions for people to be their best at work. To achieve our aspirations, we need our employees to be healthy and engaged. It is essential that our people feel comfortable and motivated to contribute to our collective success.

We demonstrate part of that ambition through our commitment to addressing the causes of absenteeism. Our absentee rate in 2018 was 10.5% in Zalando Logistics and 5.0% in the rest of the Zalando group. We have also enhanced our process for when employees return to work after long-term absence.

GRI 102-16

zln.do/en-health

Through our commitment to Vision Zero[5], we are determined to eliminate accidents within our business completely. Going beyond that, we try to protect and promote employee health as much as possible. To help achieve this, we assess physical and psychological health hazards in our work environments and analyze our reports on a monthly basis. This approach, based on international standards such as the European Agency for Safety and Health at Work (EU-OSHA) and, in the future, ISO 45001, enables us to both identify areas for improvement and learn from best-practice environments. Across the company, we apply expert advice on healthy workplaces to help us shape current and future offices and fulfillment centers. For example, in 2018 we offered our employees a range of health initiatives, such as fitness programs and mindfulness training.

We have also launched a new health project in our fulfillment centers which offers both short-term practical measures and initiatives to develop long-term behavioral changes. In this project, we closely engage leads in our fulfillment centers, including team leads on the first leadership level. Building on their knowledge and close connection to all employees in our fulfillment centers, we enable them to adopt a mindful leadership style and to promote health within their teams. This is a key lever for us to understand the drivers of our sickness rate and derive adequate and sustainable measures to reduce absenteeism.

In 2018, we also rolled out health-focused leadership training to our Customer Care Departments. Constantly striving for outstanding customer satisfaction can create a challenging work environment, so we need to provide high levels of engagement and psychological support. Our newly implemented leadership training program includes regular and relevant health talks and guidance on supporting returners from long-term sick leave. We have also hired a social counsellor to give employees in our Customer Care confidential assistance on personal, private, health-related or conflict-related matters.

In 2019, we will continue to take a holistic approach to occupational health management. We aim to establish a growing number of structures and processes that promote health, including the roll-out of health talks between teams and the sharing of best practices in our fulfillment centers and Customer Care Departments. To further improve our safety processes, we are working towards achieving the ISO 45001 standard in the future.

5) https://www.dguv.de/en/prevention/visionzero/index.jsp

Health Indicators

→ 6

GRI 403-2

	2018	2017
Absentee rate Zalando Logistics*	10.5%	10.6%
Absentee rate Zalando excluding Zalando Logistics**	5.0%	4.6%

*) Includes our fulfillment centers in Brieselang, Erfurt, Mönchengladbach and Lahr.
**) The numbers do not include Anatwine, Kickz, ifansho Portugal, zLabels China, zLabels Trading Southern Europe, zLabels Trading Ltd., Logistics Entities, Zalando Outlets.

Providing Fair and Decent Work in Our Logistics

With their high level of commitment, our logistics employees ensure that the more than 26 million customers across 17 European markets experience convenient and reliable services every day. A large part of our logistics continues to be handled by the fulfillment centers operated by Zalando. Creating high standards in our logistics is a priority for us and also a business necessity in the face of high competition for a good workforce. Therefore, one of our targets in our do.STRATEGY is focused on offering employees consistently fair working conditions at all our locations.

We have set out our expectations for our own fulfillment centers and those of our partners in clear social standards, and we have implemented an auditing system to assess compliance. Our social standards are based on our Code of Conduct as well as relevant local regulations and cover key topics such as equal opportunities, remuneration, working hours and freedom of association.

GRI 102-4

Compliance with our standards is reviewed twice a year through an unannounced audit by an external auditor at our own Fashion Store fulfillment centers. The average result of the audits in 2018 at our own logistics sites in Brieselang, Erfurt, Lahr and Mönchengladbach was 1.51 (on a scale of 1 = very good to 4 = not sufficient).

Additionally, in 2018 compliance with our social standards was reviewed in locations of our fulfillment partners including those of our subsidiaries Lounge and zLabels[6]. With the audits, we want to assess wether business partners fulfill our expectations regarding decent working standards.

The results of the audits form the basis to agree on measures to address the findings at the sites. Zalando monitors the implementation of these measures through regular meetings.

In 2018, we changed the auditing company to work with local auditors at each site who are familiar with country-specific working conditions.

Fairness and equal treatment are key elements of our social standards, particularly when it comes to remuneration. Salaries at Zalando Logistics are based on the respective regional collective bargaining agreements for the logistics industry. Temporary staff contributes to our success every day, and our social standards stipulate that temporary workers shall receive the same hourly wage as our permanent employees.

6) We cannot publish the audit results of our business partners, as this would allow to draw conclusions about the performance of individual service providers.

All employees, including temporary staff at our own fulfillment centers, have the opportunity to speak to social workers to receive counseling, also in private matters, during their working hours.

Our employees help us to further develop the work experience in our fulfillment centers. Various bodies of employee participation (i.e. works councils, round tables) are actively engaged in improving the environment at their respective sites. We promote various opportunities for dialogue between employees and management by asking our employees, such as in engagement surveys or personal interviews, for feedback and ideas on how we can make working at Zalando an even better experience.

GRI 103-1/-2/-3 MA Labor / Management Relations

Building a Place to Thrive with a Strong Culture

We are committed to creating opportunities for our employees to thrive. We think that access to development opportunities is a key factor in our employees' satisfaction, so we invest in this area to help improve retention. Voluntary turnover was at 13.0% in 2018 (11.1% in 2017). Levels improved in the second half of the year with initial measures showing positive effects. This makes us confident that we will achieve our target of bringing voluntary turnover down to 10% across Zalando by 2020.

GRI 103-1/-2/-3 MA Employment

To build a workplace where our employees can thrive, we made three assumptions about the future of work. Firstly, we understand that we need to build new and meaningful learning experiences and a feedback culture that helps employees in their personal and professional development.[7] Secondly, we believe that the nature of work will change through the growing use of technology, so we closely analyze the skills that are in high demand and for which demand will rise as those changes unfold. As an example, in 2018, we offered machine learning training to our Berlin-based employees, which more than 400 people attended. Lastly, we think that great leaders attract and develop new leaders, and this principle is central to our aspiration to become one of the best-led tech and fashion companies in Europe. Because we are open and explicit about the behaviors we expect to see from each other and we support each other to be our best, we are able to drive a positive, high performance culture. We believe in the community spirit that has helped Zalando become what it is today, and working closely with great colleagues and leaders is a large part of what drives us. To do this, we refined our mindset and culture through a revised set of principles that we have launched in Q1 2019. In addition, we invest in building leadership skills at all levels of Zalando; from our executive group to team leads in our fulfillment centers. In 2018, almost 1,000 leads have participated in at least one of our training offers.

GRI 103-1/-2/-3 MA Training and Education
GRI 404-2

In our fulfillment centers, we invited leads to embark on a leadership development journey. The program provides a platform where participants can choose learning interventions to suit their individual needs, based on themes such as self-management, conflict management, feedback culture and motivational, healthy and mindful leadership. To date, about 400 leads have joined the program, participating in about 1,500 learning interventions. Thanks to its initial success, we intend to develop the program further in 2019. In our fulfillment centers, we will focus on our leads' ability to inspire and foster collaboration within the team, while also acknowledging cultural diversity. To support this, we will offer ways to measure and grow team effectiveness and performance.

7) Please see more detailed information on our work in this regard in our annual report 2017 from p. 17 onwards.

Employment Indicators → 7

GRI 401-1

	2018	2017
Voluntary turnover rate overall*	13.0%	11.1%
Share of women	48%	49%
Share of men	52%	51%
Share of age group below 30	55%	47%
Share of age group 30 – 50	40%	47%
Share of age group above 50	5%	6%
New hires overall	4,515	5,997
Share of women	46%	45%
Share of men	54%	55%
Share of age group below 30	53%	48%
Share of age group 30 – 50	40%	44%
Share of age group above 50	7%	8%

*) Exits due to termination by the employee; excluding termination agreements

1.2.3 do.KNOW – Products

As the fashion industry grows, so does its impact on people and the planet. At the same time, supply chains remain complex and intransparent. Our bold ambition is to become a leading online destination for sustainable fashion, and we want deliver on this ambition by using our expertise in both tech and fashion to enable customers and brands to make more sustainable choices. The basics in quality, safety and ethical sourcing are a strong foundation for all products on our platform, and we set even higher standards for our private-label products.

do.KNOW Our Performance Against Targets

→ 8

	Targets	Timeline	Progress 2018	Status	Outlook 2019
Aspired outcome I: We are a leading online destination for sustainable fashion in Europe.	Grow the selection of sustainable fashion in our Fashion Store.	2020	We increased the number of products with a sustainability benefit in our Fashion Store.		Focus on growing our selection through closer collaboration with third-party brands.
	Improve the signposting, navigation and visibility of sustainable fashion in our Fashion Store.	2018	We developed a filter for products with a sustainability benefit on our website, introduced new certification labels and rolled out a dedicated microsite to all countries.		Further improve the navigation, information and visibility of sustainable products in our Fashion Store.
	Use our unique position as a tech and fashion company to increase transparency in the fashion value chain.	2020	We launched the zImpact accelerator program, hosting various events and Hackathons with partners. You can find more information on this in our do.CONNECT section on p. 36 of this report.		Invest in the most promising tech ventures and collaborate with partners.
Aspired outcome II: The social and environmental footprint of our private labels has improved.	Increase worker well-being in factories by sourcing 25% of private label business volume from factories that take part in our Factory Improvement Program.	2018	We sourced 25% of private label business volume from factories that take part in our Factory Improvement Program.		Sustain the 25% level for 2019 and expand our focus to new areas like chemical management and productivity.
	Reduce the carbon, water and waste footprint of our clothing by 10% to meet European Clothing Action Plan targets.	2019	We joined the Better Cotton Initiative as a way to source more sustainable cotton at scale and decrease our water footprint. We collaborated with MADE-BY and Fashion for Good to identify startups and projects that aim to reduce and reuse waste throughout the manufacturing process.		Increase the Better Cotton share of our cotton sourcing to 30% by the end of 2019.
	Eliminate critical heavy metals from our manufacturing process.	2020	We stabilized the fail rate caused by critical heavy metals by identifying safe materials (working in close collaboration with suppliers). We introduced stricter and more robust testing at source.		Work on an overall compliance manual that covers all our requirements (from a chemical, physical and labelling perspective) to give partners a more comprehensive overview of our quality expectations.

Started   Ongoing   Substantial progress   Achieved

Striving to Become a Leading Online Destination for Sustainable Fashion

As one of the few companies with expert capabilities in both tech and fashion, we are in a unique position to respond to two key challenges. Firstly, transparency in supply chains, which you can read more about in the do.CONNECT section of this report, and secondly the consumer attitude-behavior gap. We strongly believe that many customers want to make more sustainable fashion choices, and we know that a new generation of customers deeply cares about sustainability. However, that attitude is not yet fully reflected in the purchasing choices they make when it comes to fashion. As a platform with around 2,000 brands, we want to leverage our reach and make it easier for consumers to find more sustainable fashion.

Non-financial report 2018

Promoting Sustainable Fashion

GRI 103-1/-2/-3 MA Materials

www.zalando.co.uk/sustainable-fashion/

Customers interested in sustainable fashion currently face a big challenge: finding relevant products. The market is fragmented, and information is complex, confusing and often difficult to find. Our ambition is to help solve this challenge by offering an attractive and relevant assortment and improving our user journey to include more information on sustainability. In fact, our vision is to be a leading online destination for sustainable fashion by 2020. While we want to empower customers to make their own choice about what sustainability means to them, we had to decide on what basis to highlight certain articles and sustainability information. There is no widely accepted standard for sustainability but a wealth of ratings, certificates and industry frameworks. We chose to start on product level by highlighting articles that have at least one certificate out of a predefined list (e.g. GOTS or Fairtrade cotton) with a sustainability flag in the catalog. The list of certificates that we accept is published on our microsite dedicated to sustainable fashion, which we introduced in Germany in 2017. In 2018, we rolled out this microsite to all our markets. In order not to limit what sustainability information we make transparent to customers, we also show benefits like when an article is made with more environmentally friendly fibers or with recycled material. This information is collected from brands in the buying process along with other data like size and material composition.

We are still at the beginning of understanding what information is relevant to customers at what point. We are conducting surveys and interviews to gain customer insights and testing different features. In 2018, we implemented a filter for products with a sustainability benefit. We will continue to invest in our user experience to make it increasingly easier for customers to buy sustainable fashion on our platform.

In terms of offering an attractive assortment in this space, we will extend the breadth of available items with a sustainability benefit and work with brands leading in this field. We are also working on dedicated brand collaborations regarding sustainability in order to offer an exciting experience to our customers and give more visibility to the topic in general. We plan to collaborate closely with our brand partners to achieve our vision of becoming a leading online destination for sustainable fashion.

Partnering to Create Change

We want our customers to shop with confidence, knowing that they are buying from a responsible company. We are committed to protecting the environment and the people within fashion supply chains. To deliver on this commitment, we set standards that we require our third-party brands to comply with and are continuously improving our procedures.

Our Code of Conduct sets the standards that we expect our business partners and their subcontractors to comply with, such as minimum wage, freedom of association and the absence of forced labor, child labor, and discrimination. It is based on the internationally recognized principles of the Universal Declaration of Human Rights (UDHR) and the Conventions of the International Labor Organization (ILO).

GRI 102-16
GRI 103-1/-2/-3 MA
- Freedom of Association and Collective Bargaining
- Child Labor
- Forced or Compulsory Labor
- Human Rights Assessment
- Supplier Social Assessment

Our Ethical Sourcing Standards are based on Directive 98/58/EC concerning the protection of animals kept for farming purposes and the standards of the World Organisation for Animal Health (OIE). We do not sell any products that originate from endangered species listed in international conventions, and we are a Fur Free Retailer. We stopped selling products made of fur in 2012 and have been a member of the Fur Free Retailer Initiative since 2016. Our Ethical Sourcing Standards also cover responsible marketing and prohibited activities such as sandblasting.

GRI 102-12
GRI 102-13
GRI 102-16

Our Restricted Substance List (RSL) specifies the chemical limits permitted in our products in line with (EG) No 1907/2006 REACH and standards set by international markets. Our contractual partners and suppliers are obliged to deliver products in compliance with the requirements of the RSL.

GRI 102-16
GRI 103-1/-2/-3 MA Customer Health and Safety

We continuously review the standards in our Code of Conduct, our Ethical Sourcing Standards and our RSL. To ensure ongoing compliance with the RSL, we carry out random testing across our product range, with the RSL regularly reviewed and updated in line with legislation (latest revision August 2018). We expect our brands and supply partners to implement a robust chemical management system.

We monitor product compliance proactively and reactively. Proactively: as part of our onboarding process we introduced a product safety questionnaire to create better transparency. Reactively: we monitor a variety of information streams, including the EU Rapex Alert system and our Customer Care, to react quickly to any safety concerns.

We will keep working closely with partners in the industry to manage issues that arise, update standards regularly and develop a range of detailed policies. Our testing regime is constantly monitored to identify specific areas for improvement.

Non-financial report 2018

zLabels – Improving the Social and Environmental Footprint of Our Private Labels

11 of the around 2,000 brands we sell belong to our subsidiary zLabels. At zLabels, we source products from 23 different countries, and currently work with 240 sourcing partners and 425 factories, a 12% decrease in comparison to 2017. Our five main sourcing countries in 2018 were China (45%), Turkey (11%), India (10%), Bangladesh (8%) and Spain (4%). Due to the size and variety of our assortment, we do not own any of the factories in our supply chain, but are focusing on strengthening our relationships with key sourcing partners. Our vision at zLabels is to play an active role in building an industry where workers are safe, empowered and financially secure. We want to rethink how we design and make our products to improve lives and reduce waste. We aim to collaborate with business partners who share our vision of making a positive contribution to the wider community and the environment. We are in the early stages of a long journey towards shaping a more sustainable fashion industry through a range of partnerships with organizations, NGOs, governments and brands.

GRI 102-9
GRI 102-10

www.zlabels.com

Enhancing Worker Well-Being

A crucial part of our work at zLabels is checking that our sourcing partners comply with our Zalando group-wide Code of Conduct[8] and treat workers with dignity. As members of the Social Labor and Convergence Project[9], we have aligned our audit program with their standards to reduce audit fatigue across the industry. We also joined ACT (Action, Collaboration, Transformation), a multi-stakeholder agreement to progress towards living wages through collective bargaining at industry level. A Steering Committee is held quarterly with a member of the Management Board and other stakeholders to ensure appropriate oversight.

GRI 102-13

We evaluate all audits against our internal non-compliance matrix, which is based on our Code of Conduct and local legal requirements. The findings on non-compliance are grouped into minor, major and critical, and a rating is then given to the factory and a Corrective Action Plan (CAP) is sent. We updated our country requirements, building on country risk categorization and developing new policies, including subcontracting and contract workers policies, and updating our migrant workers and homeworkers policies. As in 2017, we continued our Supplier Partnership Program (SPP), led by our Sourcing Team, which evaluates sourcing partner performance across a range of areas, of which Ethical Trade contributes 12.75% to the score, to improve performance and incentivize improvement by incentivizing high-performing sourcing partners.

GRI 103-1/-2/-3 MA
- Freedom of Association and Collective Bargaining
- Child Labor
- Forced or Compulsory Labor
- Human Rights Assessment
- Supplier Social Assessment

GRI 308-2
GRI 407-1
GRI 408-1
GRI 409-1
GRI 412-1
GRI 414-1
GRI 414-2

As part of our onboarding process, new sourcing partners must sign our Code of Conduct and provide an audit from the last twelve months. Factories must meet all ethical requirements before orders can be placed. If critical findings are observed, we do not begin the relationship without evidence that they have been corrected. In the past year, we rejected the onboarding of 51 factories due to non-compliance.

For existing factories, we require new audits every twelve months to monitor and reassess factory conditions. In 2018, we evaluated 446 audit reports for new and existing factories. If a critical instance of non-compliance is found at an existing factory, the factory has seven months to remediate the critical instance along with a new audit. We require evidence of improvement to continue our relationship with the sourcing partner.

In 2018, our Vendor Summits in India, China and Spain were attended by 183 of our sourcing partners. Through a series of workshops and panel discussions, we engaged our business partners to collaborate and build stronger partnerships that meet both of our goals.

Our Ethical Trade Team visited 64 factories in 2018, working closely with our partners to develop customized improvement plans to address specific social challenges.

In order to further educate our wider staff, we developed an Ethical Trade e-learning course, which is mandatory for all zLabels' employees. To support the factories of our sourcing partners in meeting our standards, we have also launched a tailored training video that provides information on our standards and policies in an accessible way. The video was sent to all sourcing partners.

Gaining transparency throughout our supply chain is an important focus for us, and we have 100% visibility of our Tier 1 sourcing partners. In 2018, we also worked to increase visibility of Tiers 2 and 3, with a focus on cotton and leather. As part of our commitment to transparency, we will be

8) Our Code of Conduct sets the standards that we expect our business partners and their subcontractors to comply with, such as minimum wage, freedom of association and the absence of forced labor, child labor, and discrimination.
9) https://slconvergence.org/

disclosing our strategic Tier 1 supplier list by the end of 2019, which represents the vast majority of our business.

As part of our commitment to enhancing worker well-being, our Factory Improvement Program (FIP) goes beyond auditing to support our sourcing partners and factories on the ground through capacity building and awareness-raising. Our FIP has continued to grow this year, with 25% of our business volume sourced from participating FIP factories. We have nine programs and initiatives across eight countries (see figure 9), each program tailored to each specific factory.

Collaboration is at the heart of our programs, and throughout 2018 we worked closely with six independent partners and their wider networks to tackle issues endemic to the industry. One of our newest partners this year is Deutsche Gesellschaft für Internationale Zusammenarbeit (GIZ) GmbH, which we are currently working with to improve chemical management practices in our shoe supply chain in China. This project, driven by our Ethical Trade and Quality Management Teams, is explained further in the section Ensuring the Quality of Our Products on p. 29.

Additionally, we found a strong correlation between improved working conditions, increased factory productivity and better financial performance, which led us to expand the "Benefits for Business and Workers Program" with Impactt to our strategic shoe factories in Agra, India. We also expanded the scope of our FIP work through a partnership with Swasti Health Catalyst to empower women through training on health, financial literacy and gender-related topics.

zLabels Factory Improvement Program in 2018 GRI 102-13 → 9

zLabels “Factory Improvement Program” (FIP)

Romania In Romania, we rolled out a bespoke zLabels-run FIP to shoe factories, providing training on ethical trade issues where they need support.

China factory improvement collaboration

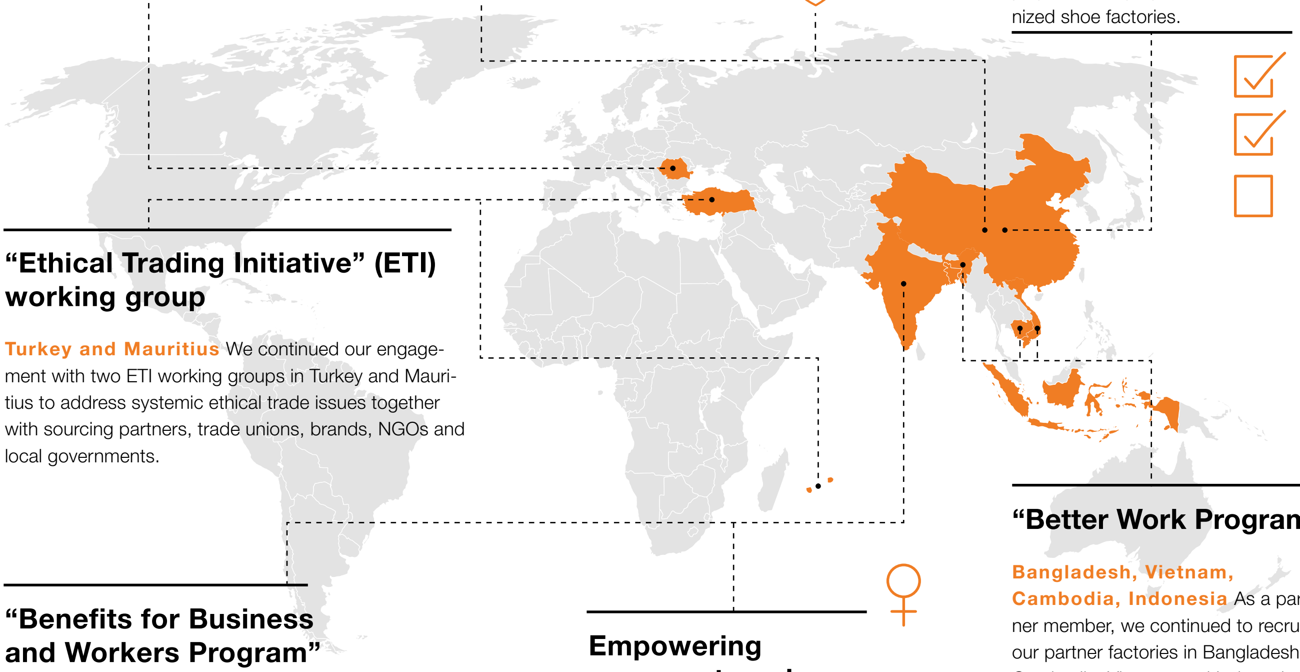
China We ran a collaboration program with the ethical trade consultancy Impactt and seven other brands to improve working conditions across strategic factories, with classroom training and follow-up support.

“Promising Future” social insurance project

China We worked with the consultancy Carnstone and a group of nine brands to increase awareness among factory workers about the benefits of signing up for social insurance.

Improving chemical management through more sustainable practices in Chinese PU shoe factories

China In China, we started a cooperation project with GIZ to undertake chemical mapping, Volatile Organic Compound (VOC) emissions testing and expert training to workers in polyurethane (PU) and vulcanized shoe factories.



“Ethical Trading Initiative” (ETI) working group

Turkey and Mauritius We continued our engagement with two ETI working groups in Turkey and Mauritius to address systemic ethical trade issues together with sourcing partners, trade unions, brands, NGOs and local governments.

“Benefits for Business and Workers Program”

India In India, key apparel, shoe and accessory factories are participating in the “Benefits for Business and Workers Program” delivered by Impactt to improve productivity and working conditions.

Empowering women at work

India We launched a program with Swasti Health Catalyst to empower and support women in our South Indian factories through training on women’s health, respect and financial literacy.

“Better Work Program”

Bangladesh, Vietnam, Cambodia, Indonesia As a partner member, we continued to recruit our partner factories in Bangladesh, Cambodia, Vietnam and Indonesia into the International Labour Organization (ILO) “Better Work Program,” which trains factories on various topics including health and safety, improving dialogue with workers and supervisory skills.

Rethinking Design and Materials

GRI 102-12
GRI 103-1/-2/-3 MA
- Materials
- Water
GRI 301-1
GRI 301-2
GRI 303-1

The global fashion industry accounts for an estimated 5–10% of all greenhouse gas emissions[10], consumes significant amounts of resources and recycles less than 1% of clothing into new garments[11]. As a fashion company, we are dedicated to reducing our environmental impact. We want to do this by using more sustainable materials, designing products with their next lives in mind and making sure we only produce what our customers really want through better use of data and improved stock management. As part of the European Clothing Action Plan (ECAP), we have committed to reducing the carbon, water and waste footprint of our clothing by 10% by 2019, switching to more sustainable alternatives for the most important materials we use.

In 2018, we launched a sustainable collection as part of our womenswear brand mint&berry. The collection was made from environmentally friendly materials such as lyocell, Lenzing viscose™ and organic cotton. We will continue to increase our use of sustainable materials in the mint&berry range and are increasing the number of sustainable products across the entire zLabels portfolio as shown through the steps listed in the table below.

10) https://unfccc.int/news/un-helps-fashion-industry-shift-to-low-carbon, Measuring Fashion, Quantis (2018), Pulse of the Fashion Industry, Global Fashion Agenda & The Boston Consulting Group (2017)
11) A New Textiles Economy: Redesigning Fashion's Future, Ellen MacArthur Foundation (2017)

Our Key Materials

→ 10

Material by volume	Challenge / issue	Progress	Plans
Cotton 48% (apparel)	Traditionally a resource-intensive crop, cotton requires large amounts of water and pesticides to grow.	We became a member of the Better Cotton Initiative (BCI), which trains farmers to use water efficiently, care for soil health and natural habitats, reduce harmful chemicals and respect the rights and well-being of workers. In 2018, we sourced 6.8% (233 metric tons (MT) of Better Cotton lint out of a total of 3,426 MT).	We are committed to sourcing 30% (or 1,229 MT) of our cotton as Better Cotton by the end of 2019. We are focused on scaling the use of recycled and organic cotton across all our products.
Polyester 28% (apparel)	Polyester is made from non-renewable fossil fuels which require significant amounts of energy to be manufactured into fabric.	Using recycled polyester helps us save energy, reduce greenhouse gas emissions and divert plastic bottles or existing garments from landfill. In 2018, we used 0.53 MT of recycled polyester and are working to increase this volume year on year.	We plan to address the increased cost of recycled polyester by sourcing directly from yarn producers.
Viscose 12% (apparel)	Viscose is a semi-synthetic fiber made from wood pulp, with a risk of being sourced from ancient and endangered forests. The production of viscose can also be associated with negative environmental impacts.	We joined the CanopyStyle initiative in February 2018 to address the risk of deforestation of ancient and endangered forests. We have now mapped 36% of our viscose use down to producer level. Additionally, we added extra requirements to our Prohibited Activities Policy to address the production of viscose fiber in collaboration with the Changing Markets Foundation.	We will continue to engage with our sourcing partners in China, our largest sourcing country, and will explore more sustainable alternatives to conventional viscose, such as EcoVero™, modal and lyocell.
Leather 32% (footwear and soft accessoires)	The production process is complex and associated with social and environmental issues, such as chemical management and waste water treatment.	We became members of the Leather Working Group (LWG) in 2017. We have 100% visibility on the tanneries used by five of our strategic sourcing partners in India and have mapped 100% of our raw material suppliers in Spain and Portugal (representing 10% and 15% of our total leather volume, respectively).	We will continue to shift production to LWG-certified tanneries.

Collaboration is key for us, and we work with a number of independent experts including the University of Santiago de Compostela and MADE-BY. We developed a sustainable material toolkit based on the Sustainable Apparel Coalition's Materials Sustainability Index, MADE-BY's Environmental Benchmark for Fibres and Textile Exchange's Preferred Fiber & Materials Market Report to help our Product Teams make more informed decisions. We regularly review these criteria to reflect industry developments, and we are in the process of working with brand partners to extend this framework to include footwear. Additionally, we commissioned two training resources from MADE-BY on sustainable trims and design for circularity and are rethinking traditional design principles to identify and reduce waste, including using new technologies such as digital sampling, which reduces the production of physical samples by up to 60%.

GRI 102-16
GRI 103-1/-2/-3 MA Materials

Respecting the Natural World

At zLabels, we hold ourselves to high standards when it comes to respecting the natural world. In line with Zalando's Ethical Sourcing Standards, we have now banned the use of mohair from the autumn/winter (AW) 2019 season onwards and are currently investigating more sustainable alternatives to conventional virgin wool, such as the Responsible Wool Standard (RWS) and recycled wool. In 2018, we also became certified to the Responsible Down Standard (RDS), which ensures holistic respect for animal welfare throughout the supply chain and prohibits force-feeding and the removal of down and feathers from live birds. All our down is now certified to this standard. We are committed to offering our customers more vegan options, and in 2018 we further expanded our range of vegan products to over 1,000 PETA-approved shoe styles.

GRI 102-16

As a member of the Sustainable Apparel Coalition (SAC), we work with brands, manufacturers and NGOs to create alignment, drive transparency and increase sustainability performance across the industry. We use the Higg Index to measure and improve our own sustainability performance and that of our sourcing partners in our own operations and to compare this to other leading brands. We joined the SAC in 2017 and identified improvement opportunities in water and waste management as well as greenhouse gas emissions. This year, 19% of our Tier 1 supply base (based on business volume) completed the Facility Environment module, more than twice the amount compared to last year. We aim to enroll 60% of our sourcing partners in the Higg Index by 2020.

GRI 102-13
GRI 102-16
GRI 103-1/-2/-3 MA
- Water
- Supplier Environmental Assesment
GRI 303-1

As we build towards designing for circularity, we are also focusing on reducing waste throughout our supply chain by implementing various efficiency measures in our sourcing partners' factories. In 2019, we plan to launch a manufacturing pilot to re-use material offcuts in production. To help our customers reduce their impact on the planet and extend the life of their clothing, we adapted all our care labels to include the Clevercare logo and promote washing at 30°C. We also continue to explore more sustainable packaging solutions.[12]

Ensuring the Quality of Our Products

At zLabels, we go beyond compliance and monitoring legal parameters. We want to improve product quality and customer experience while looking after workers and the environment.

As part of this, our Quality Assurance and Ethical Trade Teams have joined forces with the Deutsche Gesellschaft für Internationale Zusammenarbeit (GIZ) GmbH to implement a new training program, "Improving Chemical Management through More Sustainable Practices in Chinese Shoe Factories." The project is part of the develoPPP.de program by the German Federal

GRI 102-12

12) Further information on our corporate environmental strategy can be found from p. 30 onwards.

Ministry for Economic Cooperation and Development (BMZ). The project seeks to tackle the industry-wide challenge faced by the polyurethane (PU) shoe sector of addressing the increasingly high levels of volatile organic compounds (VOCs) observed in factories from chemical use and the harmful impact this can have on workers, the environment and end product.

Over two years, the project will carry out chemical mapping and VOC emissions testing in each factory to understand the current VOC levels and how chemicals are currently being managed and handled by workers. Once the baseline is established, we will work with each factory to develop an action plan, identifying the hotspot areas to improve. The second part of the project will work with a local partner in China to deliver expert chemical management training to factory workers to reduce chemical hazards and instill more sustainable chemical management practices, thereby protecting our workers and bringing compliant end-to-end products to our consumers.

GRI 103-1/-2/-3 MA Supplier Environmental Assessment GRI 308-2

Beyond this project to tackle VOCs, the zLabels Quality Assurance Team has also set up a program that aims to remove heavy metals from our supply chain. While this initiative has already successfully eliminated many of the failures connected with heavy metals, certain aspects of the program require further action. During the last year, we adjusted the setup to focus especially on two heavy metals – chromium VI (Cr(VI)) and lead (Pb). Chromium VI is a parameter of great interest throughout the industry as very strict legal regulations are in place and the complexity of controlling is well known. To minimize associated chromium failures, we are connecting to leather tanneries via our suppliers, ensuring that the processes and chemicals used are fulfilling necessary quality standards. Lead on the other hand is mainly seen in small metal parts, so the method of prevention is to ensure that suppliers are using trims from a safe origin, e.g. through pre-testing or from a certified source.

1.2.4 do.PROTECT – Environment

We take the challenges of climate change and resource scarcity seriously and are committed to growing our business in a responsible way while reducing our environmental impact.

We are working toward decoupling our environmental footprint from our economic growth in two ways: by reducing our carbon footprint across energy, logistics and travel and by optimizing our packaging to reduce waste.[13]

13) For more information on the environmental performance of our products, please see the do.KNOW section of this report on page 28.

do.PROTECT Our Performance Against Targets

→ 11

	Targets	Timeline	Progress 2018	Status	Outlook 2019
Aspired outcome I: We have mobilized our full climate protection potential across our value chain.	Reduce CO_2 emissions per order by 10% by 2020, compared to 2017 levels.	2020	We switched to renewable energy, which led to a 16% reduction in CO_2 emissions per order.		Further testing and implementation of climate measures in the areas of energy and logistics.
	Require and enable 100% of our packaging suppliers and nationwide carrier partners to provide us with CO_2 data and commit to reducing CO_2 emissions by 2020.	2020	We informed all nationwide carriers about our climate strategy, with more than 80% providing CO_2 data.		Continued engagement with packaging suppliers to provide CO_2 data.
Aspired outcome II: We have taken sustainable packaging to the next level.	We want 100% of the packaging procured by Zalando to be sustainable.	2020	We conducted a life-cycle analysis of alternative packaging materials to evaluate their environmental impact and switched to shipping bags with 80% post-consumer recycled content (Blue Angel certified).		Identify and test sustainable alternative materials for three packaging product groups and engage with partner brands, encouraging them to switch to sustainable materials.

Started | Ongoing | Substantial progress | Achieved

Reducing Our Ecological Footprint

GRI 103-1/-2/-3 MA Emissions

Climate change is one of the defining challenges of our time. It poses significant risks to our business, employees, partners, customers and communities across the world. In order to tackle this challenge, we launched our first climate protection strategy this year. This strategy sets out our ambition to decouple our growth from our environmental footprint, with a twin focus on resource efficiency and renewables. The strategy was signed off by senior management and the Management Board. They also monitor progress against targets and the status of implemented measures in a quarterly steering committee.

In the past years, the main sources of CO_2 emissions have been customer deliveries, energy and packaging. This performance data has informed and shaped our climate protection strategy, and mitigating these emissions is a key strategic focus for us. We are targeting a per-order carbon emissions reduction of 10% by 2020, against a 2017 baseline. In 2018, we achieved a 16% reduction per order by switching to renewable energy throughout all our German and Polish fulfillment centers and almost all of our offices. We collaborate closely with our suppliers and partners to reduce our collective carbon footprint. By 2020, we want 100% of our packaging suppliers and nationwide carrier partners to provide us with CO_2 data and commit to reducing CO_2 emissions. This year, over 80% of our nationwide carriers provided us with CO_2 data, enabling us to measure our impact more accurately. We also responded for the first time to CDP, helping us to drive better performance through transparent disclosure.

Cutting Our Carbon Footprint

Due to our business growth this year, our total market-based greenhouse gas (GHG) emissions increased by 18% to 247,841 metric tons of carbon dioxide equivalent (t CO_2e)[14]. This increase was mainly driven by a 31% rise in our scope 3 emissions, with 62% of that figure coming from customer deliveries. Our total location-based emissions were 287,161 metric tons – a 29% increase from 2017.

Relative metrics such as emissions per order help us to track and improve the efficiency of our overall operations. In 2018, this totaled 2.13 kg CO_2e per order, a 16% decrease from 2017.

Greenhouse Gas Emissions

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GRI 305-1
GRI 305-2
GRI 305-3
GRI 305-4

IN METRIC TONS CO_2 EQUIVALENT (T CO_2E)	2018	2017
Scope 1	5,701	4,935
Scope 2*	1, 678	21,290
Scope 3	240,462	183,425
Total (Scope 1, 2, 3)	**247,841**	**209,650**
Emissions neutralized by carbon offset projects	700	–
Net carbon emissions	247,141	209,650
Carbon intensity (kg CO_2e / order)**	**2.13**	**2.54**

*) The Scope 2 emissions displayed are market-based values. The location-based value for 2018 is 42,134 t CO_2e.
**) This indicator has been calculated based on the net carbon emissions.

The main triggers for CO_2 emissions in the reporting year were the transportation of parcels from our fulfillment centers, including returns (60%), and the production of packaging materials for the products we sell (13%).

14) Greenhouse gas 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 metric tons of CO_2.

CO_2 Emissions by Source* (2018)

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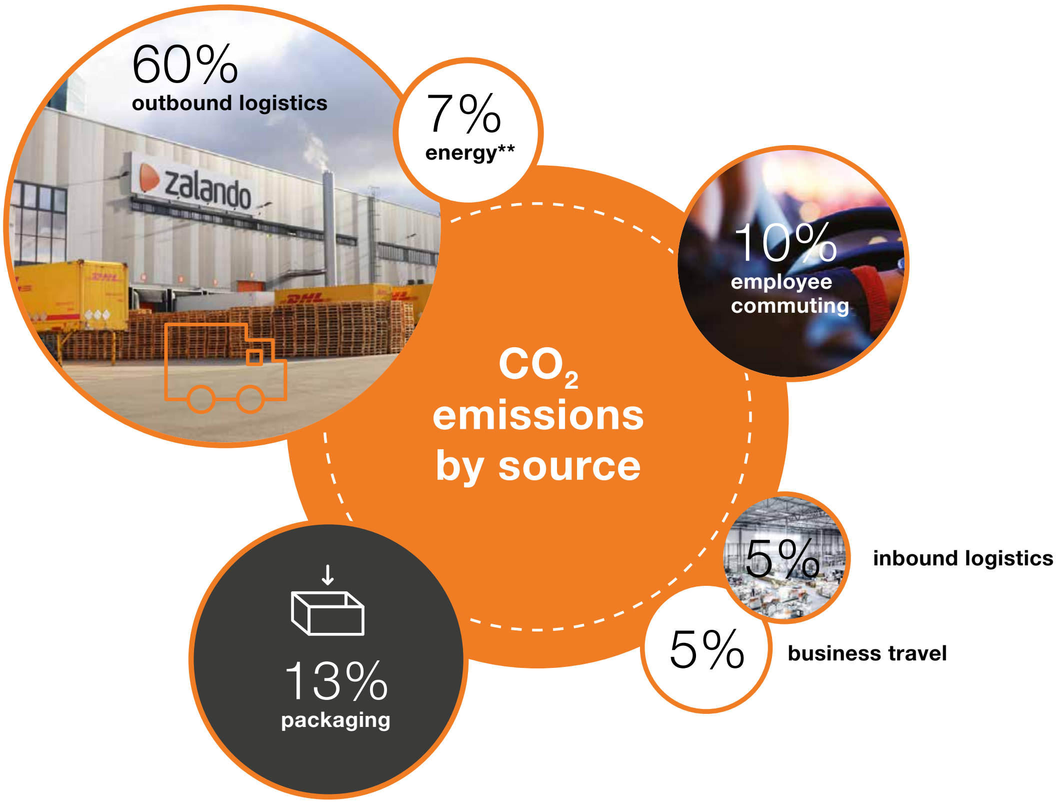

*) Outbound logistics considers customer deliveries incl. returns from Fashion Store, zLabels, Zalando Lounge, Zalon and Partner Program; packaging considers the production of packaging materials; inbound logistics considers the upstream transportation of zLabels products and packaging materials, and also storage in spoke warehouses; employee commuting calculated based on commuting scenarios; energy incl. energy consumption as well as fuel and energy-related activities.

**) Energy emissions contain all of our offices and offline-stores with more than 40 employees and our logistic locations in Brieselang, Erfurt, Lahr, Mönchengladbach, Szczecin (Gryfino) and Lodz (Gluchow).

Optimizing our Energy Performance

GRI 103-1/-2/-3 MA Energy

The consumption of energy is a major contributor to climate change. That is why we are both investing in renewable energy and investigating ways to use less energy, wherever possible.

GRI 102-4

Effective energy management systems play a big part in increasing efficiency. In 2018, we prepared the introduction of an integrated energy management system which will be used across our fulfillment centers in Germany from January 2019 onwards. The computer-based control system allows us to effectively monitor and target our energy consumption. In December 2018, our main administration building on Tamara-Danz-Straße in Berlin received the ISO 50001 certification with a planned rollout for other office buildings in 2019.

In 2018, we switched to 100% renewable energy across our German fulfillment centers and almost all our German offices. Our Polish fulfillment centers are also running on 100% renewable electricity. Additionally, we have invested in a gold standard afforestation carbon offset project to account for the emissions generated by our heating consumption at these centers.

Energy Consumption *

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GRI 302-1

IN MWH	2018	2017
Electricity (total)	74,164	50,840
Electricity from renewable sources	73,887	22,840
District heating	8,235	11,864
Natural gas	20,388	20,296
Car fleet	1,224	1,402
Total	**104,011**	**84,402**

*) The figures include the logistics locations in Brieselang, Erfurt, Lahr, Mönchengladbach and Szczecin (Gryfino) and Lodz (Gluchow) and all administrative locations with more than 40 employees as of December 31, 2018.

Improving Our Logistics

GRI 103-1/-2/-3 MA Emissions
GRI 305-3

In 2018, customer deliveries accounted for 60% of our total carbon footprint. In 2017, we piloted a logistics feature to automatically bundle customer orders. The impact continues to be positive, with more than 1m orders sent to our customers in combined single, rather than multiple, shipments, which reduces the carbon emissions from our deliveries. Additionally, on the return page of our online shop we started to encourage our German customers to return multiple orders in a single shipment by reminding them of the positive impact they can have on the environment by doing this. More than 90,000 shipments have been saved since the option to bundle returns was introduced.

For us, it is important that our suppliers have effective environmental management systems in place. Therefore, we included the ISO 14001 environmental protection standard as a mandatory requirement for all private labels logistic providers this year.

Encouraging Sustainable Travel

GRI 305-3

Business travel accounts for 5% of our total CO_2 emissions, and an additional 10% results from employees traveling to and from work. To reduce the impact of commuting, we added e-vehicles to our car sharing fleet. Our company car guideline provides financial incentives for employees who select hybrid or e-vehicles as their company cars.

We have several offices across Berlin, so we introduced the bike and car-sharing app zMove earlier this year to encourage more sustainable travel between our sites.

GRI 102-4

We actively encourage employees to take public transport wherever possible, and we have worked closely with local public transport companies to improve routes and connections to and from our fulfillment centers in Erfurt and Lahr. Additionally, we continue to offer a monthly employee public transportation subsidy to all our employees, whether they work in an office or in a fulfillment center.

Our Plans

Reaching a 16% reduction in our CO_2 emissions per order within the same year of setting this target is a great accomplishment. Nevertheless, given the growth rate of our business, we only consider our target aspiration to be fulfilled if we still achieve a 10% reduction in 2020 in comparison to our 2017 baseline.

GRI 305-4

In 2019, we will continue to work on reducing the impact of our shipments by piloting climate protection measures for customer deliveries.

In an effort to align our climate protection efforts with climate science, in 2018 we started measuring a science-based metric called X-degree-compatibility (XDC). XDC is a forward-looking indicator which estimates how many degrees Celsius the earth would warm by 2050 if all companies were to operate as emissions-intensively as we do. In 2019, we will further explore how this metric can be integrated into our climate-related risk management.

Reimagining Packaging and Waste

We are more committed than ever to reducing the amount of resources we use, including finding new ways to reuse, recycle and recover post-consumer waste.

GRI 103-1/-2/-3 MA Materials
GRI 301-1
GRI 301-2

Packaging plays an essential role in protecting our products until they reach our customers. In 2018, we used more than 34,000 metric tons of packaging materials, 89% of which came from renewable sources.

With a predicted increase in total volume of deliveries driven by business growth, we anticipate a commensurate increase in the volume of packaging materials we use. Therefore, as part of our journey to decouple our economic growth from our environmental footprint, we are working to improve the sustainability of our packaging materials.

Enhancing Our Sustainable Packaging

We intend to both reduce the volume of packaging we use and switch to 100% sustainable packaging materials by 2020[15]. The following principles guide us in assessing the sustainability of our packaging materials:

GRI 103-1/-2/-3 MA Materials

1. Reduce the amount of packaging per shipment
2. Use a life cycle approach to understand the environmental impact of our packaging
3. Use recycled material where possible
4. Source virgin fibers from responsibly managed forests
5. Design packaging to optimize material use and costs and support recycling
6. Use ingredients that are safe for the environment and human health throughout their life cycle

This year, we conducted a life cycle analysis of our packaging materials to obtain a better understanding of their environmental impact. The analysis confirmed that our packaging boxes, which are made from 100% recycled materials, are resource efficient and meet our sustainable packaging principles. We have also invested in our shipping bags, switching from virgin plastic to 80% post-consumer recycled (PCR) content, saving up to 40% of CO_2 emissions per kilogram and diverting

15) Packaging procured by Zalando. For packaging not procured by us, our aim is to work with our partners to achieve the 100% target over time.

waste from landfill. Due to their high content of PCR material, our shipping bags are now Blue Angel certified, meaning they meet high standards when it comes to their environmental, health and performance characteristics.

Reducing Our Waste

A significant proportion of our waste is generated by customer deliveries and returns. We encourage our customers to recycle our packaging, and this year around 50% of our packaging materials were returned to us and recycled. At our fulfillment centers, we also collect and recycle shipping boxes and foil packaging bags that can no longer be used.

GRI 103-1/-2/-3 MA
- Materials
- Effluents and Waste
GRI 301-3

Total Weight of Waste by Type and Disposal Method

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GRI 306-2

IN METRIC TONS*	2018	2017
Non-hazardous waste	**18,912**	**17,693**
Waste disposal method		
Recycling	16,763	15,821
Reuse	20	58
Recovery, including energy recovery	1,916	864
Waste incineration	213	950
Hazardous waste	**2**	**1**
Total	**18,914**	**17,694**

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

Our Plans

Taking the sustainability of our packaging to the next level is a journey and requires a holistic approach. We are evaluating sustainable alternatives for our product packaging, for example for our polybags, the transparent bags that protect each of the apparel items shipped to our customers. Our aim is to test at least one of the alternative materials in 2019.

In addition to this, we will continue to analyze our packaging processes to reduce the amount of materials used and start engaging with our partner brands to encourage them to switch to more sustainable packing materials.

1.2.5 do.CONNECT – Societal Engagement

We know that reimagining fashion for the good of all requires us to also use our social engagement to create new solutions that ensure the fashion industry works in the interests of all people involved. To do this we are committed to investing 1% of our adjusted EBT, and we contribute in two key ways. Firstly, we are committed to scaling innovative solutions for supply chain transparency through zImpact, our accelerator program that supports organizations that use digital technology to increase supply chain transparency in the fashion industry with visibility, funding and know-how. Secondly, we are investing in our local communities around our offices by volunteering both our time and expertise.

do.CONNECT Our Performance Against Targets

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	Targets	Timeline	Progress 2018	Status	Outlook 2019
Aspired outcome I: Zalando has leveraged its unique mix of resources to scale existing solutions for social impact.	Strengthen the ecosystem by contributing to at least three existing programs that create solutions to societal challenges (including refugee integration, community inclusion and value chain transparency).	2018	We partnered with Fashion For Good, Humanity United Working Capital and the German Neighbourhood Award of the nebenan.de Foundation.	Achieved	We are constantly adapting our role in partnerships according to our best possible contribution.
	Substantially contribute to scaling at least five solutions with the potential to increase value chain transparency in the fashion industry.	2020	We continued our partnership with Fashion For Good and teamed up with Humanity United. We have built a pipeline of more than 70 innovations in supply chain transparency. From this pipeline, we took closer look at 23 solutions to identify our potential contribution to their support.	Started	Initial investments in solutions through our zImpact accelerator program.
Aspired outcome II: Zalando employees have become changemakers in their communities.	Leverage the professional expertise of our employees by increasing our skills-based volunteering.	2020	We shifted the focus of our volunteering activities to skills-based volunteering.	Started	Extending the offer of skills-based volunteering options to our employees.
Aspired outcome III: We pioneered ways to increase impact orientation in corporate citizenship.	Enable NGOs to collaborate with business in capacity building programs.	2018	Through training with our partner Vostel, we are enabling 22 NGOs to work with corporates. We are partnering with businesses to offer training to NGOs, through platforms including the CSR Network Berlin.	Achieved	
	Test different methodologies to measure our societal impact.	2019	We teamed up with the University of Mannheim and partnered with an impact measurement expert to design a measurement and learning framework based on three areas; - societal impact - employee benefit - business impact We are developing effective measures and KPIs to help steer our activities in corporate citizenship.	Ongoing	Look for further partners and methodologies to help us measure the impact of our citizenship activities.

Started Ongoing Substantial progress Achieved

Using Tech for Good

We are using technology to reimagine fashion for the good of all. This year, we launched zImpact, our accelerator program, to scale innovative digital solutions to increase supply chain transparency. We want to substantially contribute to scaling at least five solutions with the potential to increase value chain transparency in the fashion industry by 2020. At the same time, we want to use our expertise in tech and fashion to start taking a systemic role in our industry and invest strategically in solutions that increase transparency and sustainability in our industry. We support startups, initiatives and NGOs with visibility, funding and the expertise of our employees. We believe that greater transparency is an important way to drive change, enabling companies and consumers to turn information into informed choices and in turn creating a better fashion industry for all.

Our zImpact Accelerator

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zImpact aims at …

… supporting innovative digital solutions: We are supporting early-stage digital transparency innovators with flexible financing, expert guidance and industry connections, to help scale their impact. We are currently working on mapping a pipeline of scalable transparency solutions to share with the fashion industry.

... showcasing the power of digital solutions for transparency: We are working with industry partners to connect stakeholders through events, research and programs. Here we showcase innovative technologies that enable transparency in the value chain and raise awareness for the impact of digital solutions on the fashion industry and accelerate the development of new solutions.

... empowering conscious customers and sustainable brands: We inspire and empower customers and sustainable brands through research, data and educational material.

We are working with startups and brands to drive transparency in supply chains. We successfully launched our zImpact accelerator with a pipeline of more than 70 for-profit and non-profit organizations that use technology to increase supply chain transparency. We have run a series of hackathons and pro bono projects and are focused on improving impact measurement. We have developed an impact measurement framework for the zImpact program and will define further indicators to measure the impact of our efforts.

We continued our partnership with Plug&Play's sustainability accelerator Fashion for Good with eight other partners from the fashion industry to find sustainability innovations also beyond our focus on digital solutions, to invest in them and to support them by entering the market.

We are excited to bring the industry together around the important issue of transparency. This year, we invested in Humanity United's Working Capital fund, which in turn invests in scalable innovations to meet the growing demand for more transparent and ethical supply chains across different industries. We also facilitated several workshops around supply chain transparency challenges with industry players, innovators and experts with over 100 attendees.

Strengthening Diverse Communities

As a large employer, we want to play an active role in our communities around our company's locations. We support all of our employees in doing this by providing two days a year for volunteering. In 2018, 1,158 employees provided support for 91 initiatives in 1,302 shifts, creating shared value for both the charities we support and our employees.

GRI 103-1/-2/-3 MA Local Communities
GRI 413-1

zln.do/en-volunteering

We are proud to be a business with employees representing more than 130 different nationalities. As an international business with employees, partners and customers from countries across the world, diversity and inclusion are hugely important to us. This year, we continued to support refugee integration initiatives, and through our ongoing partnership with the nebenan.de foundation, we supported five projects focused on strengthening inclusion in local neighborhoods. These projects provided the inspiration for The Neighborhood Box, a toolkit shared with local neighborhoods giving them a step-by-step guide on how to organize effective projects to help them develop community cohesion.

Contributing to Humanitarian Aid

In 2018, we donated EUR 80,000 in in-kind donations and set up a disaster relief fund with EUR 100,000 to respond to global crises. We set up a fast and efficient infrastructure via betterplace.org to make sure our contribution is used in a way that is transparent and that allows us to involve our employees and customers in the donation process.

Dear Shareholders,

in 2018, Zalando celebrated its 10th birthday, a moment to acknowledge the success which the company achieved on its way to becoming Europe's leading online platform for fashion and lifestyle and connecting its ever growing base of customers, brands and partners in 17 countries. 2018 was also a year which had its challenges, but our strong performance in Q4 2018 proved that we are well positioned for our future growth. We firmly believe in the growth opportunities which still lie ahead. For the upcoming years, we will continue to put a strong focus on the customers' needs and the empowerment of brand partners as a key driver of the platform.

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 and the German Corporate Governance Code. It received regular and detailed written and oral reports on the intended business strategy, any material issues regarding financial, investment, personnel planning and the progress of business as well as risks and opportunities. In particular, the Management Board

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Corporate Governance Report
p. 48

The Supervisory Board – from left to right:
Anders Holch Povlsen Deputy chairperson of the Supervisory Board, member of the nomination committee,
Konrad Schäfers Member of the Supervisory Board, member of the audit committee,
Beate Siert Member of the Supervisory Board, member of the remuneration committee,
Anthony Brew Member of the Supervisory Board,
Lothar Lanz Chairperson of the Supervisory Board, chairperson of the nomination committee, member of the audit committee,
Jørgen Madsen Lindemann Member of the Supervisory Board, chairperson of the remuneration committee, member of the audit committee, member of the nomination committee,
Shanna Prevé Member of the Supervisory Board, member of the remuneration committee,
Dominik Asam Member of the Supervisory Board, chairperson of the audit committee,
Alexander Samwer Member of the Supervisory Board, member of the remuneration committee.

consulted the Supervisory Board on the group's strategy. The Supervisory Board was directly involved in all material decisions. Transactions requiring approval were presented by the Management Board.

Meetings of the Supervisory Board and Its Committees

The plenum of the Supervisory Board held four meetings in fiscal year 2018, the audit committee four and the nomination committee two. Continuing its extensive discussions from fiscal year 2017, the remuneration committee held three more meetings in fiscal 2018 to finalize the proposal and the introduction of the new compensation system for the Management Board members. Lothar Lanz as chairperson and Anders Holch Povlsen as deputy chairperson of the Supervisory Board participated in one meeting of these meetings of the remuneration committee. In addition, the Supervisory Board passed 12 circular resolutions. The Supervisory Board and its committees also convened wholly or partly without the Management Board as necessary to deliberate on items that pertained to the Management Board or required internal discussion among Supervisory Board members alone. The plenum of the Supervisory Board was informed about the results of meetings of the committees at its subsequent plenary meetings. All members of the Supervisory Board attended all meetings of the Supervisory Board and all meetings of their respective committees.

Overview of Plenary and Committee Meetings and Attendance on an Individual Basis in Fiscal Year 2018

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	Tenure	Plenum	Audit committee	Remuneration committee	Nomination committee
Dominik Asam	Since May 2017	4 / 4	4 / 4	–	–
Anthony Brew	Since May 2018	3 / 3	–	–	–
Lothar Lanz	Since February 2014	4 / 4	4 / 4	–	2 / 2
Jørgen Madsen Lindemann	Since May 2016	4 / 4	4 / 4	3 / 3	2 / 2
Anders Holch Povlsen	Since December 2013	4 / 4	–	–	2 / 2
Shanna Prevé	Since May 2017	4 / 4	–	3 / 3	–
Alexander Samwer	Since December 2013	4 / 4	–	3 / 3	–
Konrad Schäfers	Since June 2015	4 / 4	4 / 4	–	–
Beate Siert	Since June 2015	4 / 4	–	3 / 3	–

Plenary Meetings

In each of its ordinary quarterly meetings the plenum of the Supervisory Board analyzed and discussed the management reports on the course of business and the company's strategy as well as capital markets developments. The chairpersons of the committees of the Supervisory Board reported regularly to the full Supervisory Board on the activities of each of the committees. In addition, the Supervisory Board dealt with the following focus areas:

At its ordinary meeting on February 26, 2018, the Supervisory Board dealt with the financial statements, the consolidated financial statements for 2017 and the non-financial report presented by the Management Board. In accordance with the recommendations of the audit committee, the Supervisory Board adopted the financial statements for 2017 and approved the consolidated financial statements for 2017 and the non-financial report 2017. It followed the proposal of the Management Board for the appropriation of profit for fiscal year 2017. In addition, the Supervisory Board adopted a resolution regarding its report for fiscal year 2017 and dealt with the agenda for the annual general meeting 2018 as well as the repurchase of own shares. The Supervisory Board discussed in detail the renewal of the appointment of the Management Board members and the proposed structure of the new remuneration system. The Supervisory Board also addressed the results of its 2017 efficiency evaluation, which was carried out by way of a questionnaire focusing on the supply of information to the Supervisory Board, the structure and efficiency of meetings, the setup and procedures of the Supervisory Board's committees, the composition of the Supervisory Board and its succession planning. No noteworthy shortcomings were identified.

At its ordinary meeting on May 23, 2018, the Supervisory Board dealt in particular with the result of the say on pay vote of the annual general meeting, the new service contracts for the Management Board members and the allocation of responsibilities among the members of the Management Board.

The ordinary meeting on August 6, 2018, was specifically devoted to the company strategy which was presented by the Management Board and discussed in depth with the Supervisory Board members. The Supervisory Board also discussed the funding strategy for the new Long Term Incentive program for the members of the Management Board and authorized the Management Board to purchase own shares to hedge and discharge a substantial part of the payment obligations under this new Long Term Incentive program.

zln.do/en-strategy

At its ordinary meeting on December 11, 2018, the Supervisory Board dealt primarily with and discussed the budget for the fiscal year 2019. The Management Board and the Supervisory Board jointly resolved on the declaration of conformity with the German Corporate Governance Code. The Supervisory Board also discussed the format of the annual self-assessment of its efficiency. The examination was performed based on questionnaires. Every member of the Supervisory Board was asked to provide feedback on the work of the full board as well its committees and the cooperation with and information by the Management Board.

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. These transactions were presented to the Supervisory Board for approval. The transactions discussed by the Supervisory Board included inter alia the building of a fulfillment center for Zalando Lounge in Poland, the reorganization of the company's marketing function and the transition of the operation of the Brieselang fulfillment center to logistics provider Fiege.

Audit Committee

The audit committee analyzed the annual financial statements for 2017 and the consolidated financial statements for 2017, including the combined management report for 2017 and the non-financial report, as well as the quarterly statement for the first quarter, the half-year report and quarterly statement for the third quarter of 2018. The audit committee 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, the treasury reports, the approval of non-audit services and addressed the readiness of the company for the requirements under the General Data Protection Regulation. The audit committee was involved in the preparation of the Supervisory Board's proposal to the annual general meeting 2018 for the appointment of the auditor and group auditor. The chairperson of the audit committee conferred with the auditors on the audit focus.

Remuneration Committee

The remuneration committee continued its work of the previous year on the review of the Management Board's performance and the design and introduction of the new compensation system for the Management Board members. Besides this, the remuneration committee addressed the development of the company's employee incentive programs.

Nomination Committee

The nomination committee dealt with the preparation of the proposals of the Supervisory Board to the annual general meeting regarding the election of the members of the Supervisory Board. In doing so, the nomination committee considered the targets for the composition of the Supervisory Board as well as the profile of skills and expertise which the Supervisory Board had determined.

Conflicts of Interest

No conflicts of interest of any Supervisory Board member occurred in the context of the work of the Supervisory Board. To avoid the appearance of a potential conflict of interest, Supervisory Board member Anders Holch Povlsen decided to abstain from participating in the discussion and the resolution regarding the conclusion of a reverse factoring agreement to which a company of the Bestseller group is a party.

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 2018, the combined management report and the non-financial report for ZALANDO SE and the group 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 2019 and before they were finally attested. The annual financial statements for 2018 and the consolidated financial statements for 2018 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.

Further Information Combined Management Report p. 82

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 and based on the audit committee's recommendation, the Supervisory Board discussed the financial statements, the non-financial report 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 and the non-financial 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 2018 and approved the consolidated financial statements for 2018 and the non-financial report 2018. 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 in particular of the company's annual result, liquidity, financial planning and strategy.

Further Information Consolidated Financial Statements p. 128

Corporate Governance

The annual declaration of conformity was issued by the Management Board and the Supervisory Board in December 2018. The complete text of the declaration can be found in section 1.4.1 on page 48. The declaration is made permanently available in the Corporate Governance section on the company's website.

zln.do/en-governance

More information on corporate governance can be found in the Corporate Governance Report and associated declaration on page 48. With regard to the remuneration structure for the members of the Management Board for fiscal year 2018 and to avoid repetition, please see the Remuneration Report on page 61.

Further Information Corporate Governance Report p. 48

Personnel Matters

The annual general meeting 2018 appointed Anthony Brew as a member of ZALANDO SE's Supervisory Board as employee representative, with effect as from the end of the general meeting held on May 23, 2018, for a period until the end of the general meeting that resolves on the discharge for fiscal year 2019.

The Supervisory Board would like to thank the Management Board and all employees of the company for their high level of commitment and the strong achievements in fiscal year 2018.

Berlin, February 25, 2019

Lothar Lanz

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

Current and Past Mandates of the Supervisory Board

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Name of Supervisory Board member	Mandates pursuant to Section 125 (1) Sentence 5 AktG
Dominik Asam	Mandates in affiliated companies: Infineon Technologies Austria AG, Austria (member of the Supervisory Board) Infineon Technologies Americas Corp., Delaware, USA (member of the Board of Directors) Infineon Technologies Asia Pacific Pte., Ltd., Singapore (member of the Board of Directors) Infineon Technologies China Co., Ltd., PRC (member of the Board of Directors)
Anthony Brew	–
Lothar Lanz	Axel Springer SE, Germany (member of the Supervisory Board until April 2019) Home24 SE, Germany (member of the Supervisory Board, chairperson) TAG Immobilien AG, Germany (member of the Supervisory Board, deputy chairperson) Dermapharm Holding SE, Germany (member of the Supervisory Board) Bauwert AG, Germany (member of the Supervisory Board) Until June 2018: Kinnevik AB, Sweden (member of the Board of Directors)
Anders Holch Povlsen*	J.Lindeberg Holding (Singapore) Pte. Ltd., Singapore (as well as four subsidiaries) (member of the Board of Directors) 2 Foundation Conservation Carpathia (FCC), Romania (member of the Board of Directors) North Coast 500 Limited, UK (Scotland) (member of the Board of Directors)
Shanna Prevé	–
Jörgen Madsen Lindemann**	Turtle Entertainment GmbH (member of the Advisory Board)
Alexander Samwer	Home24 SE, Germany (member of the Supervisory Board)
Beate Siert	–
Dylan Ross	–
Konrad Schäfers	–

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

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

Current and Past Mandates of the Management Board

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Name of Management Board member	Mandates pursuant to Section 125 (1) Sentence 5 AktG
David Schneider	Until May 2018: Anatwine Ltd., UK (member of the Board of Directors) Trivago N.V., Germany (member of the Supervisory Board)
Robert Gentz	–
Rubin Ritter	–

1.4 Corporate Governance Report

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

1.4.1 Declaration of Conformity

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

The Management Board and Supervisory Board submitted the annual declaration of conformity pursuant to Section 161 AktG in December 2018. The declaration of conformity from December 2018 is made available on the company's website.

zln.do/en-governance

The Management Board and the Supervisory Board of ZALANDO SE declare that ZALANDO SE has, since the publication of the last annual declaration of conformity in December 2017 except for the deviations stated and explained below under 1. to 5., acted in conformity with the recommendations of the Government Commission German Corporate Governance Code in its version of February 7, 2017, published by the Federal Ministry of Justice and Consumer Protection on April 24, 2017, in the official section of the Federal Gazette (Bundesanzeiger) (hereinafter the "Code").

Due to the introduction of the new compensation system for the Management Board effective as of December 1, 2018, the Management Board and the Supervisory Board of ZALANDO SE declare that ZALANDO SE will in the future act in conformity with the recommendations of the Code except for the deviations stated and explained below under 1. to 3.:

— **1. No. 3.8 Paragraph 3:** according to the Code's recommendations, a deductible shall be agreed upon for the members of the Supervisory Board when taking out D&O policies. The company takes the view that such a deductible is not in itself suitable to increase the performance and sense of responsibility of the Supervisory Board members. Furthermore, it reduces the attractiveness of Supervisory Board positions and thus the company's opportunities when competing for qualified Supervisory Board candidates.

— **2. No. 4.2.1 Sentence 1:** according to the Code's recommendations, the Management Board shall have a chairman or spokesman. So far, the three members of the Management Board of ZALANDO SE have worked together on an equal footing without any member performing the function of chairman or spokesman. The Supervisory Board does not see any reason why it should change this established and successful cooperation.

— **3. No. 5.1.2 Sentence 2:** according to the Code's recommendation, the Supervisory Board shall take diversity into account when appointing Management Board members.

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

The Supervisory Board acknowledges and appreciates the importance of diversity. With regard to the Management Board's composition, qualification shall still be the decisive criterion. The Supervisory Board strives to adequately consider the various fields of core competencies of the business model. For the time being, the Supervisory Board does not apply a specific diversity concept with respect to the Management Board. The Supervisory Board hereby takes into account that the company since its founding in 2008 has always been and still is a founder-led company with a very lean Management Board structure, which since 2010 consists of only three members cooperating on an equal footing. This lean structure has proven successful in the past. Besides, the Supervisory Board acknowledges that the Management Board for its part appreciates and promotes the importance of inclusion and diversity in the company overall and in the management of the company in particular. The Management Board aims to further increase the diversity in the management levels below itself, paying attention particularly to a variety of professional experience and expertise and aiming for an appropriate consideration of women and internationality. The Supervisory Board will continuously reconsider this decision on a diversity concept in the long-term succession planning and develop a diversity concept for the Management Board in the future when considered appropriate.

— **4. No. 4.2.3 Paragraph 2 Sentences 4, 6 and 7:** according to the Code's recommendations, both positive and negative developments shall be taken into account when determining variable components of the compensation paid to members of the Management Board. The amount of compensation shall be capped, both overall and for the variable compensation components, and the variable compensation components shall be related to demanding, relevant comparison parameters.

The previous compensation system for the Management Board, which was valid until November 30, 2018, and which had been determined before the initial public offering and thus before the application of the Code's recommendations, provided for a share option scheme as the variable component of the Management Board compensation. This share option scheme did not contain an explicit rule requiring the consideration of negative developments. It included performance targets linked to the average annual growth rate of the aggregated retail value of all sales transactions with persons or enterprises not belonging to the Zalando group. Negative developments were taken into account solely by the fact that the execution of option rights, due to the strike price for the execution of the option rights, can become unattractive; therefore, we declare, as a precautionary measure, a deviation from No. 4.2.3 Paragraph 2 Sentence 4 for the past. With regard to the recommended cap for the amount of compensation within the meaning of No. 4.2.3 Paragraph 2 Sentence 6, the share option program provided for a cap in relation to the number of shares that will be allocated upon the exercise. No cap was foreseen on the monetary value of the share options upon the exercise to avoid an interruption of the alignment of interest between the shareholders and the members of the Management Board, and to achieve adequate participation in the economic risks but also chances of the company by the members of the Management Board. As no cap in relation to the variable component was determined, consequently also no cap in relation to the overall amount of the compensation was determined, so that a deviation from No. 4.2.3 Paragraph 2 Sentence 6 is declared for the past. Lastly, it could not be excluded that the agreed performance targets did not comply with the requirements laid down by the Code regarding demanding parameters. Therefore, we also declare, as a precautionary measure, a deviation from No. 4.2.3 Paragraph 2 Sentence 7 for the past.

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

— **5. Nos. 4.2.4 and 4.2.5:** according to the Code's recommendations, the compensation of the members of the Management Board shall be disclosed by name, divided into fixed and variable components as well as fringe benefits. These recommendations were not complied with because the general meeting of ZALANDO SE on July 11, 2014, resolved in accordance with Sections 286 (5), 314 (3) Sentence 1, 315e (1) (previously 315a (1)) HGB in connection with Article 61 of the SE Regulation that the compensation of the members of the Management Board will not be disclosed by name in the annual and consolidated financial statements of ZALANDO SE to be prepared for fiscal years 2014 up to (and including) 2018. Thus, the company abstained from including in the compensation report the disclosures recommended under No. 4.2.5 Paragraph 3 of the Code in individualized form.

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

1.4.2 Corporate Governance

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

We aim for a sustainable corporate governance by combining economic success with environmentally compatible and socially balanced activities. The company sees investments in corporate responsibility as an essential success factor for the business to maintain its social license to operate and wants to engage employees, customers and partners in these activities. Detailed information on Zalando's corporate responsibility strategy and activities can be found in the Corporate Responsibility section on page 8.

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Non-financial report 2018

Our Code of Ethics, which is available on the corporate website and was communicated to the employees in various languages, sets expectations and provides guidance on how Zalando wants to do business and is the basis of all group policies. Under the Code of Ethics, all employees are required inter alia to comply with the law and our policies, including, but not limited to, anti-corruption practices, antitrust regulations, data protection and insider compliance, and tax provisions. The details are set out in internal guidelines and policies. The Code of Ethics is structured around three sections: winning together, act like an owner and speak-up. Fostering a speak-up culture so that employees actively participate and raise concerns or report compliance breaches is an essential part of Zalando's culture. This expectation is complemented by the promise to protect all those who report an incident in good faith from negative consequences.

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

zln.do/en-principles

Our Code of Conduct for business partners, which is published on the corporate website, sets the minimum standards by which business partners who produce or supply goods and services for us must abide. Every business partner shall acknowledge these standards to assure a safe and fair working environment and to commit to the compliance with applicable laws and regulations regarding the protection and preservation of the environment. The Code of Conduct clearly states that Zalando does not accept any form of corrupt practices including, but not limited to, extortion, fraud, or bribery. Business partners are expected to comply with applicable national and international regulations and shall establish appropriate anti-bribery and anti-corruption policies, which shall be communicated to all business areas. Zalando carries out business partner due diligence for defined group of business partners and in cases where potential compliance risks are apparent.

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

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

GRI 205-2

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

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

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

Various communication channels are available to facilitate the reporting of presumed compliance infringements to the Compliance & Business Ethics Team. They can inter alia be reported – in various languages – via whistleblowing tool from a third-party provider that was introduced in the reporting period, on an anonymous basis if preferred. The anonymous and protected reporting channel is available to employees as well as third parties. A compliance panel manages serious cases of (potential) compliance violations. Information on detected compliance infringements, important updates of processes or policies, as well as training attendance quotas are reported to the Management Board at least on a quarterly basis.

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

GRI 102-11

The Management Board bears overall responsibility for the proper functioning of the risk and compliance management system, and the Supervisory Board monitors the effectiveness of the system.

1.4.3 Management Board and Supervisory Board Procedures

Management Board Procedures

The Management Board bears responsibility for managing the company's business. It is bound to act in the interest of the company and to increase the long-term value of the company. The three members of the Management Board, Robert Gentz, David Schneider and Rubin Ritter, manage the company in partnership and, as members of the Management Board with equal rights, are responsible for the company's strategy and its day-to-day implementation.

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

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

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

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

Composition of the Management Board

The Supervisory Board acknowledges and appreciates the importance of diversity. A diverse composition of management and supervising bodies can promote new perspectives in decision-making processes and discussions and help to further improve performance. For the time being, the Supervisory Board does not apply a specific diversity concept with respect to the Management Board. The Supervisory Board takes into account that the company since its founding in 2008 has always been and still is a founder-led company with a very lean Management Board structure of only three members cooperating on an equal footing. This lean structure has proven successful in the past. The Supervisory Board has set the female representation target in accordance with Section 111 (5) AktG accordingly (please see table 25 on page 57). Besides, the Supervisory Board acknowledges that the Management Board for its part appreciates and promotes the importance of inclusion and diversity in the company overall and in the management of the company in particular. The Management Board aims to further increase the diversity in the management levels below it, paying particular attention to a variety of professional experience and expertise, aiming for an appropriate consideration of women and internationality. The Supervisory Board will regularly reconsider its decision on a diversity concept in the long-term succession planning and develop a diversity concept for the Management Board in the future when considered appropriate. While performance and qualification rather than age are and will remain the decisive factors when selecting Management Board members, such members should not be older than 65 when elected.

zln.do/en-management-board

Supervisory Board Procedures

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

Members of the Supervisory Board in Fiscal Year 2018
Dominik Asam
Anthony Brew (member since May 23, 2018)
Lothar Lanz (chairperson)
Jørgen Madsen Lindemann
Anders Holch Povlsen (deputy chairperson)*
Shanna Prevé
Dylan Ross (member until January 15, 2018)
Alexander Samwer
Konrad Schäfers
Beate Siert

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

zln.do/en-supervisory-board

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

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

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

Composition of the Supervisory Board

The Supervisory Board of ZALANDO SE has set targets regarding its composition. It strives for a composition that takes account of and safeguards the particular needs of the company so that the Management Board is monitored, supervised and advised in a competent and professional manner. Every member of the Supervisory Board has the knowledge, skills and professional experience needed to properly fulfill his or her duties and responsibilities. The Supervisory Board has prepared a profile of skills and expertise for the entire board. The competence profile of the Supervisory Board as a whole comprises industry competence (in particular in the fields of fashion, technology and commerce) and finance competence as well as competencies in the areas of strategy, supervision and innovation. According to Section 100 (5) AktG, the members of the Supervisory Board as a group shall be familiar with the sector in which the company operates. In addition, each member ensures he or she has sufficient time to carry out his or her duties. A maximum of two former members of the Management Board are permitted to be members of the Supervisory Board. The members of the Supervisory Board may not accept mandates for bodies of or advisory activities for significant competitors of the company.

While qualification remains the decisive criterion, the Supervisory Board strives to adequately reflect the international character, the various fields of core competencies of the business model as well as the competence profile of the Supervisory Board. At the same time, the Supervisory Board pays attention to diversity, in particular as regards professional experience and expertise, internationality and adequate female representation. In order to accommodate the international character of the company, the Supervisory Board should as a rule have no fewer than two international members. The Supervisory Board strives to adequately consider women in the diversity of its composition, with the specific target that no fewer than two women should be members of the Supervisory Board. The Supervisory Board has set the target in accordance with Section 111 (5) AktG accordingly (please see table 25 on page 57). The Supervisory Board continues to strive to increase female representation on the Supervisory Board and agreed to intensify the search for qualified and suitable female candidates. The single most important factor for nominating a member to the Supervisory Board is the candidate's qualifications, which is not dependent on the candidate's age. As a result, the Supervisory Board sees no benefit in introducing fixed age limits. As a rule, however, Supervisory Board members should not be older than 70 when elected. Furthermore, no fewer than five members of the Supervisory Board should be independent, as defined in Section 5.4.2 of the German Corporate Governance Code, with no fewer than two of such independent members representing the shareholders. Candidates who are likely to be confronted with an increased level of conflicts of interest should not be proposed for election by the general meeting. For the names of the members of the Supervisory Board considered independent in fiscal year 2018, please refer to table 19 on page 46. In general, a Supervisory Board member should not serve as a member for longer than twelve years. The Supervisory Board is convinced that such composition ensures an independent and efficient consultation and oversight of the Management Board.

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

The composition of the Supervisory Board of ZALANDO SE in fiscal year 2018 met the composition targets it had set itself in all respects. The required expertise is represented in the Supervisory Board, the competence profile has been completed and the targets of the diversity concept are met.

Audit Committee

The audit committee prepares, among other things, the negotiations and resolutions of the Supervisory Board on the audit and ratification of the separate financial statements and the approval of the consolidated financial statements, the proposed resolution of the Management Board on the appropriation of profits and the proposal of the Supervisory Board to the general meeting on the appointment of the auditor. In addition, the audit committee handles questions regarding accounting, reviews and discusses the financial reports, approves the non-audit services by the auditor, monitors the effectiveness of the internal risk management and control systems and the internal audit system and handles questions regarding compliance and the monitoring of the audit.

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

Members of the Audit Commitee → 22
Dominik Asam (chairperson)
Lothar Lanz
Jørgen Madsen Lindemann
Konrad Schäfers

The chairperson of the audit committee, Dominik Asam, has the requisite expertise in the area of accounting or auditing pursuant to Section 100 (5) AktG. Dominik Asam is an independent member of the Supervisory Board.

Remuneration Committee

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

Members of the Remuneration Committee → 23
Jørgen Madsen Lindemann (chairperson)
Shanna Prevé
Alexander Samwer
Beate Siert

Nomination Committee

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

Members of the Nomination Committee → 24
Lothar Lanz (chairperson)
Jørgen Madsen Lindemann
Anders Holch Povlsen

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

Zalando attaches great importance to inclusion and diversity throughout the company and has always considered the representation of women in the workforce and in the management of Zalando to be an important aspect of a diverse employee structure. For further details on Zalando's diversity and inclusion strategy, please refer to the do.GROW chapter on page 14.

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

Target of Female Representation → 25

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

1.4.5 Takeover Law Disclosures Pursuant to Sections 289a (1), 315a (1) HGB and Explanatory Report[17]

The disclosures required according to Sections 289a (1), 315a (1) HGB are listed and explained below.

Composition of Issued Capital

With respect to the composition of the issued capital, please refer to the notes, section 3.5.7 Notes to the Consolidated Statement of Comprehensive Income and Statement of Financial Position.

Restrictions Relating to Voting Rights or the Transfer of Shares

At the end of the reporting year, ZALANDO SE had 2,795,235 treasury shares that do not grant rights in accordance with Section 71b AktG.

Shareholdings That Exceed 10% of the Voting Rights

At the end of fiscal year 2018, Kinnevik AB and Anders Holch Povlsen each held an indirect shareholding in ZALANDO SE that exceeded the threshold of 10% of voting rights. Information on the amount of the above-mentioned shareholdings in the company can be found in section 1.5 The Zalando Share – 2018 in Review on page 76.

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

Statutory Regulations and Provisions of the Articles of Association Concerning the Appointment and Removal from Office of Management Board Members, and Concerning Modifications to the Articles of Association

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

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

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

Authority of the Management Board to Issue Shares or Acquire Treasury Shares

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

The share capital of the company is conditionally increased by up to EUR 9,617,500 by issuing up to 9,617,500 no-par value bearer shares (Conditional Capital 2013). The Conditional Capital 2013 may be used only to fulfill the subscription rights that have been granted to the members of the Management Board of the company in connection with the Stock Option Program 2013 in accordance with the resolution of the general meeting of December 18, 2013, as amended by the company's general meeting of June 3, 2014, and of July 11, 2014. The conditional capital increase will be implemented to the extent only that such subscription rights have been or will be issued in accordance with the Stock Option Program 2013, the holders of the subscription rights exercise their rights and the company does not deliver treasury shares to satisfy the subscription rights. The Supervisory Board is exclusively competent regarding the granting and settlement of subscription rights to the members of the Management Board of the company.

The share capital of the company is conditionally increased by up to EUR 4,750,499 by issuing up to 4,750,499 no-par value bearer shares (Conditional Capital 2014). The Conditional Capital 2014 may be used only to fulfill the subscription rights that have been granted to employees of the company as well as members of the management bodies and employees of companies affiliated with the company in the meaning of Sections 15 et seq. AktG in connection with the Stock Option Program 2014 in accordance with the resolution of the general meeting on June 3, 2014, as amended by the company's general meeting of July 11, 2014. The conditional capital increase will only be implemented to the extent that such subscription rights have been or will be issued in accordance with the Stock Option Program 2014, the holders of the subscription rights exercise their rights and the company does not deliver treasury shares to satisfy the subscription rights.

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

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

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

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

Company Compensation Agreements That Have Been Entered into with Management Board Members or Employees in the Event of a Takeover Bid

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

Significant Company Agreements Subject to a Change of Control Due to a Takeover Bid

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

1.4.6 Remuneration Report[18]

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

Remuneration of the Members of the Management Board

Principles of the Remuneration System

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

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

Non-Performance-Based Remuneration

Fixed Remuneration

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

Fringe Benefits

In addition, the members of the Management Board were entitled to non-cash payments (such as the use of company cars) and other benefits totaling EUR 27,180 in fiscal year 2018 (prior year: EUR 40,050). Other benefits include reimbursement of standard expenses, such as travel expenses, contributions towards health insurance and monthly gross amounts that correspond to the employer's contributions to the statutory pension and unemployment insurance.

Performance-Based Remuneration (Long-Term Incentives)

New Long Term Incentive 2018 (LTI 2018)

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

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

Vesting Scheme

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

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

Performance Criterion

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

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

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

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

Performance Criterion

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

Waiting Period and Performance Period

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

Settlement Value and Cap

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

Claims for Restitution

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

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

LTI 2018

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

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

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

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

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

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

SOP 2011

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

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

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

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

SOP 2013

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

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

For the duration of their employment, any professional activities undertaken by members of the Management Board outside of the group require the prior written consent of the Supervisory Board, with the exception of certain limited private investment activities provided that the entities neither are active in the core business area of the Zalando group nor have a significant business relationship with the Zalando group.

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

The conditions stipulated in the new service contracts between the members of the Management Board and the company entered into force on December 1, 2018. These contracts are valid until November 30, 2023. The service contracts can be terminated only for good cause during this period. When a member of the Management Board is dismissed, the service contract does not end automatically.

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

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

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

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

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

External Benchmarking

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

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

The Supervisory Board continues to believe that the entrepreneurial risk and return profile of the proposed remuneration system best fits the needs of Zalando as a high-growth, founder-led company. The recent share price development in the second half of fiscal year 2018 underlines the high risk structure of the program that forms the core of the entrepreneurial structure. The Supervisory Board decided not to further change the proposed performance criterion because growth is the strategic focus of the company. It is furthermore convinced that the target of 15% CAGR is sufficiently challenging.

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

Amount of Compensation for 2018

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

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

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

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

Robert Gentz
Member of the Management Board

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

*) The receipt of EUR 14,741,958 relates to the exercise of 392,700 options, 196,350 of which were exercised in 2017, however, the issuance of the shares from authorized capital and thus the receipt by the Management Board member took place only in fiscal year 2018.
**) Transfer of options to companies wholly owned by the Management Board member.
***) Comprises all options granted under the LTI 2018 for the five-year contract term.

David Schneider
Member of the Management Board

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	Benefits granted (Code)				Benefits received (Code)		Benefits (GAS 17)	
IN EUR	2018	2018 (min)	2018 (max)	2017	2018	2017	2018	2017
Non-performance-based remuneration								
Fixed compensation	188,750	188,750	188,750	200,000	188,750	200,000	188,750	200,000
Fringe benefits	11,532	11,532	11,532	14,945	11,532	14,945	11,532	14,945
Total	**200,282**	**200,282**	**200,282**	**214,945**	**200,282**	**214,945**	**200,282**	**214,945**
Performance-based remuneration								
Short-term incentives (non-stock-based)								
One-year variable compensation	–	–	–	–	–	–	–	–
Long-term incentives (stock-based)								
Multi-year variable compensation								
SOP 2011 (2011–2018)	–	–	–	–	14,741,958*	–	–	–
SOP 2013 (2013–2018)	–	–	–	–	–	11,292,445**	–	–
LTI 2018 (2018–2023)	19,151,015***	–	170,000,075***	–	–	–	19,151,015	–
Total	**19,151,015**	**–**	**170,000,075**	**–**	**14,741,958**	**11,292,445**	**19,151,015**	**–**
Pension expense	–	–	–	–	–	–	n.a.	n.a.
Total	**19,351,297**	**200.282**	**170,200,357**	**215,945**	**14,942,240**	**11,507,390**	**19,351,297**	**214,945**

*) The receipt of EUR 14,741,958 relates to the exercise of 392,700 options, 196,350 of which were exercised in 2017, however, the issuance of the shares from authorized capital and thus the receipt by the Management Board member took place only in fiscal year 2018.
**) Transfer of options to companies wholly owned by the Management Board member.
***) Comprises all options granted under the LTI 2018 for the five-year contract term.

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Rubin Ritter
Member of the Management Board

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

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

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

Expenses from Share-Based Compensations → 34

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

Remuneration of Supervisory Board Members

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

According to the Articles of Association, every member of the Supervisory Board receives an annual fixed remuneration of EUR 65,000. The chairperson of the Supervisory Board receives a fixed remuneration of EUR 150,000 p.a., and the deputy chairman of the Supervisory Board receives a fixed remuneration of EUR 90,000 p.a. Supervisory Board members acting as members of the audit committee receive an additional fixed remuneration of EUR 15,000. The chairperson of the audit committee receives an additional remuneration of EUR 35,000. In addition to the remuneration mentioned above, the company reimburses the members of the Supervisory Board for reasonable out-of-pocket expenses that arise when performing their duties as Supervisory Board members as well as the value-added tax on their remuneration and out-of-pocket expenses. Supervisory Board members who hold office as members or chairpersons for only part of a fiscal year receive a proportionate share of remuneration. The remuneration of the Supervisory Board members falls due after the annual general meeting which approves the consolidated financial statements for the fiscal year for which the remuneration is paid or decides on their approval. The members of the Supervisory Board are covered by a D&O insurance policy held by the company.

Remuneration for fiscal year 2018 breaks down as follows:

Supervisory Board Remuneration

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

1.5 The Zalando Share – 2018 in Review

- Challenging market environment reflected in Zalando share performance.
- Increasing capital market awareness: 34 covering research analysts across Europe and US, regularly reporting on Zalando (year-end 2017: 28).

1.5.1 Capital Markets and Share Price Development

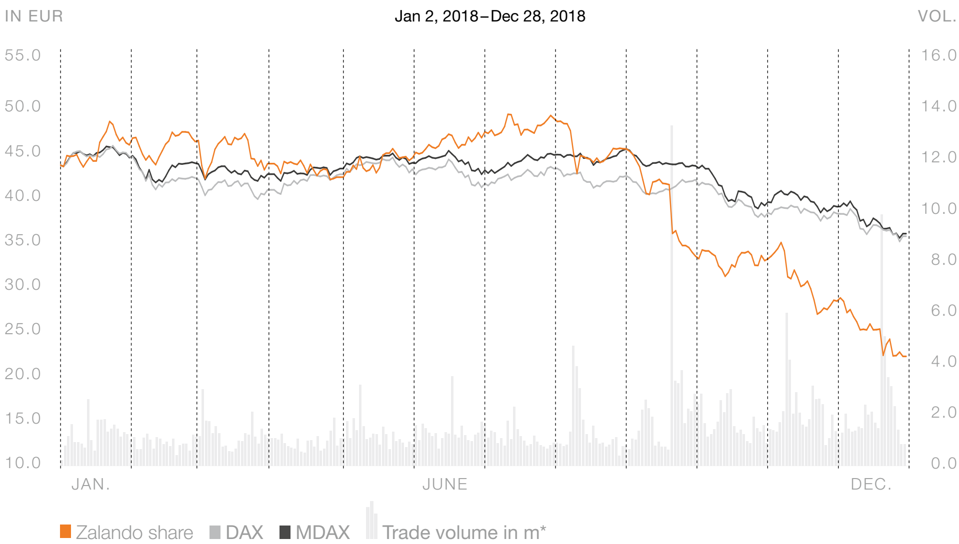
Global capital markets started 2018 in an optimistic mood due to the continued low-interest rate setting. In this environment, the leading German equity index DAX reached a new all-time high of 13,560 points in January. This mood was dampened by the fear that the rising inflation in the US might cause the central bank to raise interest rates. Throughout the year, investor sentiment was further dampened by unresolved problematic areas such as Brexit and the US trade dispute with China. Consequently, the DAX dropped to its two-year low of 10,382 points at the end of December. Sector-wise, the big consumer internet companies, along with Apple, Google and Amazon, were subject to a wider cyclical rotation as shareholders reallocated their capital from tech and growth stocks into more conservative sectors.

At the beginning of the year, the Zalando share stood at EUR 44.46. The share was able to carry over its good momentum from the prior year into 2018, in line with the positive development of German stock markets. On July 10, the Zalando share reached a new all-time high of EUR 49.87. The rest of the year was marked by the challenging fashion market environment throughout Europe and market concerns around a faster-than-expected end of the low interest period. In this situation, the Zalando share price dropped to EUR 31.32 on October 10 following the profit warning on September 17. On top of this development, the above-mentioned sector rotation exacerbated the price decline of the Zalando share. The share closed the trading year at its low of the year of EUR 22.44 on December 28. The market capitalization as of December 31 amounted to EUR 5.6bn (based on shares outstanding).

zln.do/en-share

Development of the Zalando Share, DAX and MDAX

→ 36



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

Share Performance 2018

→ 37

Opening price on Jan 1, 2018	EUR 44.46
High 2018 (July 10)	EUR 49.87
Low 2018 (Dec 28)	EUR 22.44
Closing price on Dec 28, 2018	EUR 22.44
Performance 2018	–49.1%
Average daily trading volume 2018 (shares)*	1.5m
Average daily trading volume 2018 (in EUR)*	EUR 63.9m

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

The Zalando Share → 38

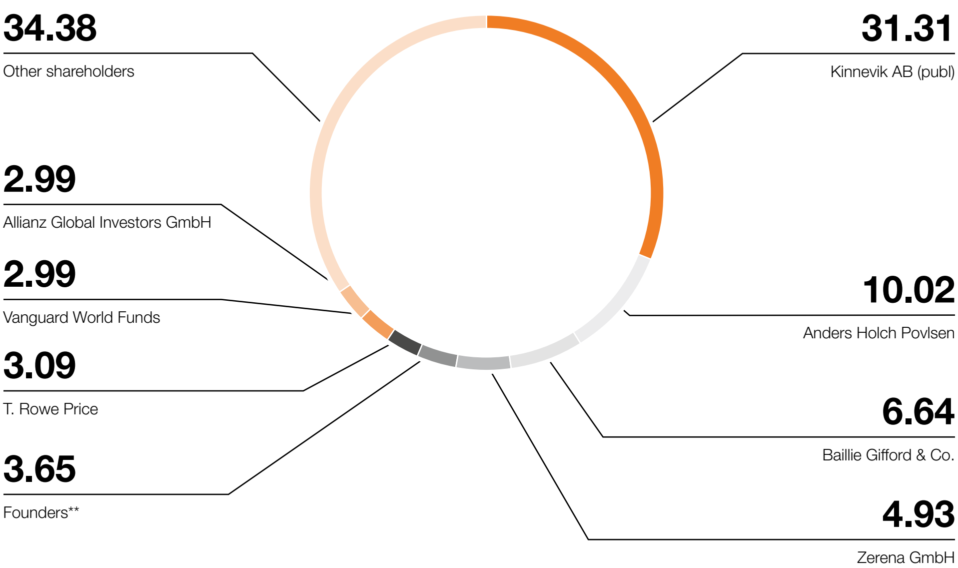
Type of shares	Ordinary bearer shares with no par value (Stückaktien)
Share capital	EUR 250,649,759
Total number of shares outstanding (Dec 31, 2018)	250,649,759
ISIN	DE000ZAL1111
WKN	ZAL111
Bloomberg	ZAL GR
Thomson Reuters	ZALG.F

1.5.2 Shareholder Structure

Zalando's shareholder structure continues to have a high share of free float[20] (58.67%; 58.31% at year-end 2017). One noteworthy change in the shareholder structure was the reduction in holding of Zalando shares by Tengelmann Verwaltungs- und Beteiligungs GmbH from 4.97% to below the reporting threshold of 3%.

Shareholder Structure in Percent as of Dec 31, 2018* → 39

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 December 31, 2018.
**) Aggregate shareholding of the founders.

20) Free float as defined by Deutsche Börse AG.

1.5.3 Research Coverage

By the end of 2018, the Zalando share was covered by 34 research analysts from Germany and abroad, resulting in a higher capital market awareness of the Zalando share compared to last year (year-end 2017: 28).

Institutions That Cover Zalando

→ 40

Arete	Erste Securities Polska S.A.	Quirin Bank
Baader Bank	Goldman Sachs	Raymond James
Bankhaus Lampe	Handelsbanken	RBC Capital Markets
Bank of America Merrill Lynch	Hauck & Aufhäuser	Redburn
Barclays	J. P. Morgan Cazenove	Santander
Berenberg	Kepler Cheuvreux	Societe Generale
Bryan, Garnier & CO	Liberum	Stifel
Citi	Macquarie Research	UBS
Commerzbank	Morgan Stanley	Warburg
Credit Suisse	Nordea	Wells Fargo Securities
Deutsche Bank	Oddo BHF	
DZ BANK AG	Pareto Securities	

1.5.4 Stock Indices

The Zalando share is listed on various key indices (selection), raising the visibility and trading volume in the Zalando share. With a weighting of 1.6% (2017: 3.1%), Zalando was ranked 19 in the German share index MDAX at the end of 2018.

Selection of Stock Indices

→ 41

Index	Region
MDAX	Germany
STOXX Europe 600	Europe
STOXX Europe Mid 200	Europe
FTSE4GOOD	Global

1.5.5 Annual General Meeting

Zalando's annual general meeting was held on May 23, 2018, at the Westhafen Event & Convention Center in Berlin. A total of 88.3% of the voting share capital was represented at the meeting. The required majority of shareholders approved each of the resolutions proposed by the company's Management and Supervisory Board. Resolutions included the approval of the new remuneration system for the Management Board members and the election of Anthony Brew as a new employee representative on the Supervisory Board.

From left to right:
David Schneider Co-founder and member of the Management Board, **Robert Gentz** Co-founder and member of the Management Board, **Rubin Ritter** member of the Management Board and **Lothar Lanz** chairperson of the Supervisory Board, chairperson of the nomination committee, member of the audit committee, during the annual general meeting 2018.

1.5.6 Close Dialogue with the Capital Markets

Zalando strives to maintain and strengthen the trust of all capital market participants through close, regular and open dialogue. We deepen our relationships with intensified external communication, engaging with institutional investors and rating agencies in numerous one-on-one meetings, calls, roadshows and conferences worldwide.

Throughout fiscal year 2018, our Management, our Senior Vice President Finance and the Investor Relations Team expanded their contacts at 18 national and international conferences and during 27 roadshow days in major cities in Europe, North America and Asia. Interested investors and analysts additionally got further insights by joining guided tours through our fulfillment center in Mönchengladbach and our Zalando Studios in Berlin. To round off the experience, we also hosted an investor and analyst event at our fashion trend show Bread&&Butter in Berlin at the end of August.

Our fourth Capital Markets Day took place in our fashion hub in Berlin on June 5. The Management Board and senior management presented our strategy and discussed the current development of our key businesses such as our Partner Program and our logistic footprint in depth. With more than 120 international participants, the event was very well attended. One day prior to the event, the attendees also had the opportunity to visit our Zalando Studios. All presentations and audio web-casts are available on our corporate website.

zln.do/en-publications

Capital Markets Day 2018.

Combined Management Report

2.1 Background to the Group

- Zalando is Europe's leading online fashion and lifestyle platform.
- ZALANDO SE and its 44 subsidiaries cover the entire value chain of an online retailer.
- Customer-centricity is the main strategic focus.
- Continued strategic investments to lock in partnerships with customers and suppliers and in infrastructure.
- The company is managed by numerous financial and non-financial performance indicators.

Non-financial report 2018

2.1.1 Business Model

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

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

zln.do/en-business-fields

Zalando's assortment of around 2,000 international brands ranges from popular global brands to fast fashion and local brands and is complemented by private label products. Zalando's offering has been extended and enhanced with Zalando Lounge, which offers registered members special offers at reduced prices. The brick-and-mortar outlet stores in Berlin, Frankfurt, Cologne, Leipzig and Hamburg opened between 2012 and 2018 serve as an additional sales channel for excess inventory.

The parent company, ZALANDO SE, was founded in 2008 and has its registered offices in Berlin. Zalando's localized offering addresses the distinct preferences of its customers in each of its 17 European markets: Austria, Belgium, the Czech Republic, Denmark, Finland, France, Germany, Ireland, Italy, Luxembourg, the Netherlands, Norway, Poland, Spain, Sweden, Switzerland and the United Kingdom. The pan-European logistics network with eight centrally located fulfillment centers allows Zalando to efficiently serve its customers throughout Europe, supported by fulfillment centers in Northern Italy, France and Sweden with a focus on local customer needs. Zalando's management believes that the integration of fashion, operations and online technology provides the capability to deliver a compelling value proposition to both customers and fashion brand partners.

2.1.2 Group Structure

Governance and Control

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

The Zalando group is managed by its ultimate parent company, ZALANDO SE, based in Berlin, Germany, which bundles all management functions and generates the vast majority of group revenues. In addition to the parent company, Zalando is comprised of 44 subsidiaries that operate in the areas of fulfillment, customer service, product presentation, advertising, marketing and private labels developed in-house. ZALANDO SE and its subsidiaries represent the entire value chain of an online retailer. ZALANDO SE has control over all subsidiaries, either indirectly or directly. As a result, group reporting essentially corresponds to the reporting for ZALANDO SE. Supplementary information concerning the separate financial statements is presented in section 2.6.

The Management Board of ZALANDO SE comprises three members, who are jointly responsible for the group's strategy and management. Rubin Ritter is responsible for the business unit Fashion Store, Finance, Corporate Governance and Corporate Communications. Robert Gentz is responsible for the Offprice and Emerging Businesses business units and for Human Resources, Strategy and Technology Infrastructure. David Schneider's area of responsibility comprises the Zalando brand and the Partner Solutions and zLabels business units. Consisting of nine members, the Supervisory Board advises the Management Board and monitors its management activities. The Supervisory Board is directly involved in decisions of fundamental importance to the company. In particular, it reviews the financial statements and management reports and it reports on the audit to the annual general meeting. Zalando's Supervisory Board represents long-term investors, employees and independent experts. The remuneration of the Management Board and the Supervisory Board as well as the incentive schemes are detailed in the remuneration report. The remuneration report and takeover disclosures pursuant to Sections 289 (4) and 315 (4) HGB, which are components of the combined management report, are presented in the corporate governance report. The corporate governance report also includes the declaration of conformity.

Further Information
Corporate Governance Report
p. 48

Group Segments

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

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

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

2.1.3 Corporate Strategy

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

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

zln.do/en-strategy

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

Fashion Industry

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

Consumer Trends

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

Partner Trends

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

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

Our Platform Vision and Strategy

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

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

Strategic Investment Areas

Investment in Our Customer Proposition

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

Assortment

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

Convenience

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

Fashion Services and Experiences

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

Multi-Channel Digital Experience

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

Investment in Our Brand Partner Proposition

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

Wholesale

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

Partner Program

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

Offprice

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

Digital Services

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

Investment in Infrastructure

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

Technology

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

Operations

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

2.1.4 Corporate Responsibility

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

zln.do/en-responsibility

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

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

Additional information regarding our sustainability strategy and our separate combined non-financial report in accordance with Section 289b (1) and (3) and Section 315b (1) and (3) HGB (German Commercial Code), which is published together with the combined management report on the company's website, is provided in the separate section 1.2 Corporate Responsibility[21] of the annual report.

Further Information
Corporate Responsibility
p. 8

2.1.5 Management System

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

Further Information
Report on Economic Position
p. 90

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

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

- **Ratio of mobile site visits to total site visits:** Users are making greater use of mobile devices to access the internet. In our effort to offer customers the opportunity to enjoy high quality shopping on their mobile devices, Zalando continues to develop and refine its mobile websites and apps. As a result, the ratio of site visits from mobile devices to the total number of site visits increased by around 8.7 percentage points in 2018, rising from 70.7 in 2017 to 79.3.
- **Number of active customers:** The Zalando group measures its success by the number of active customers. Each customer that has placed at least one order within the last year (based on the reporting date) is considered active. Compared to the prior year, the number of active customers increased by 3.3m, rising from 23.1m to 26.4m in 2018.
- **Number of orders:** In addition to revenue, the number of orders placed is a key performance indicator for the management of the group. This indicator is monitored independently from the value of merchandise and is a key driver of growth. In 2018, the number of orders placed increased from 90.5m in 2017 to 116.2m.
- **Average number of orders per active customer:** The average number of orders placed by active customers during the last twelve months totaled 4.4 as of December 31, 2018 (prior year: 3.9). This key performance indicator (KPI) is an important indicator of the trust customers place in the company and is also influenced by customer age and shopping channel.
- **Average basket size:** Similar to the number of orders placed, the average basket size has a direct effect on the revenue of the group. The average basket size (after returns) decreased slightly in fiscal year 2018 from EUR 64.5 to EUR 61.0. It is influenced by assortment composition, customer age and shopping channel. Young customers who prefer fast fashion articles and shopping mobile tend to shop more frequently but with a lower basket size.

2.1.6 Research and Development

Zalando develops key software components of its platform internally. The developments relate to a structured, labor-intensive phase of programming new functionalities as well as enhancing the existing system landscape by significant system functionalities along the entire value and process chain. This ensures that the software is aligned with the operating processes and systems in the best possible way. Development work at Zalando is performed by teams of developers that are organized by the respective function or business unit, for example Fashion Store, Payments, Zalando Marketing Services, Zalon, zLabels and Offprice.

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

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

Research costs were immaterial.

2.2 Report on Economic Position

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

2.2.1 Macroeconomic and Sector-Specific Environment

In line with previous years, the consumer inclination towards online shopping continued in 2018. Online fashion in Europe grew by 12.0%[22], closing with a trading volume of EUR 66.6bn[23]. This outperformed the fashion sector, which posted a growth of 2.5%[24] at a trade volume of around EUR 430.0bn[25].

www.euromonitor.com

German online fashion sales increased by roughly 5.0%[26] in 2018 to a market size of about EUR 15.9bn[27]. On the other hand, fashion trading volumes stagnated with an estimated 0.0%[28] growth. This could be a result of declined footfall in brick-and-mortar stores and the unseasonable weather which was experienced in Germany in several months in 2018.

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

Innovation and technology remain a fundamental driver for online consumption. Western Europe, our dominant footprint, still has the highest internet penetration rate compared to other regions such as the Americas and Asia[29]. Coupled with increasing online fashion penetration rates in this region, we believe online fashion will continue to grow at the expense of brick-and-mortar stores.

- The increased availability of smartphones and on-demand internet access has a positive effect on online fashion consumption. Throughout Europe, consumers are continually using smartphones for online shopping. As a result, mobile shopping is projected to grow by 19.6%[30] in 2019.
- Furthermore, our key market, Germany has a high concentration of affluent shoppers. It has a relatively high purchasing power index, ranking among the top 10 in European countries[31]. Additionally, purchasing power per person has increased nominally by 3.3%[32] from the previous year, which could have positive spillovers in fashion spending.
- Lastly, average gross margins for online fashion retailers range between 40% and 60%[33], considerably more attractive than average margins in other online product categories, such as electronics.

2.2.2 Business Development

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

22) Euromonitor, Europe excl. Russia, Germany
23) Ibid
24) Ibid
25) Ibid
26) Ibid
27) Ibid
28) Ibid
29) Statista 2019
30) Euromonitor, Europe excl. Russia
31) GFK 2018
32) GFK 2019
33) Company information, average gross margins of selected publicly listed e-commerce companies in 2014 including Asos, Yoox and Boohoo based on publicly available information.

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

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

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

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

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

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

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

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

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

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

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

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

The total number of employees increased by about 3.5% to 15,619. The growth was primarily driven by the increasing headcount in the Operations Department. This reflects the growth of our logistics infrastructure.

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

The Zalando share is listed in various important domestic and foreign indices, including the German MDAX, the STOXX Europe Mid 200 Index and the broader European STOXX Europe 600 Index. The Zalando share closed 2018 at EUR 22.44.

Further Information
The Zalando Share – 2018 in Review
p. 76

2.2.3 Economic Situation

Financial Performance of the Group

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

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

Consolidated Income Statement

→ 42

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

Further Information Consolidated Statement of Comprehensive Income p. 129

Other Consolidated Financial Information

→ 43

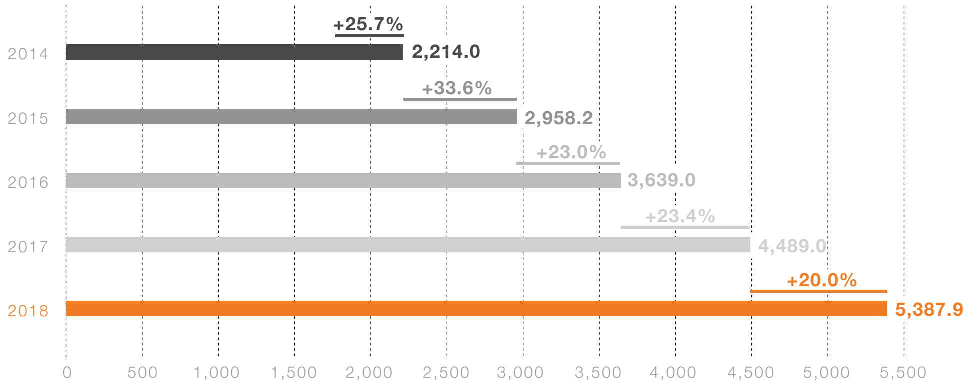
IN EUR M	Jan 1 – Dec 31, 2018	Jan 1 – Dec 31, 2017	Change
EBIT margin (as % of revenue)	2.2%	4.2%	–2.0pp
Adjusted EBIT	173.4	215.1	–41.7
Adjusted EBIT margin (as % of revenue)	3.2%	4.8%	–1.6pp
EBITDA* (in EUR m)	205.7	246.4	–40.7
EBITDA margin (as % of revenue)	3.8%	5.5%	–1.7pp
Adjusted EBITDA	259.9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

*) EBITDA is the EBIT before depreciation and amortization of property, plant and equipment and intangible assets. Depreciation and amortization of property, plant and equipment and intangible assets amounts to EUR 86.5m in 2018 (prior year: EUR 58.7m).

Development of Revenue

Annual Revenue Growth (2014 – 2018) → 44

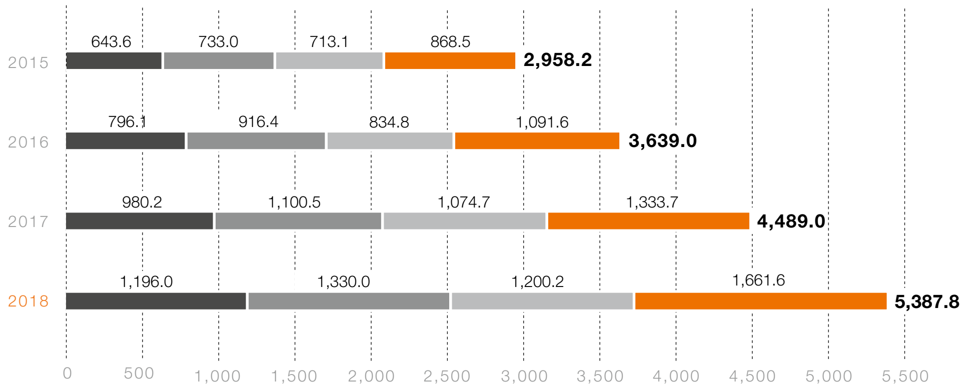
IN EUR M



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

Revenue by Quarter (2015 – 2018) → 45

IN EUR M



The variance in revenue over the course of the year reflects the seasonality of the business. Typically, the fall and winter collections are sold at higher prices than the spring and summer goods. This means that revenue levels tend to be higher in the second half of the fiscal year than the first half. In addition, the second and fourth quarters tend to be stronger than the first and third quarters as they do not contain the fashion sale periods that are typical towards season end. At EUR 1,661.6m, group revenue in the fourth quarter was up 24.6% on the comparable period of the prior year (Q4 2017: EUR 1,333.7m).

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

Key Performance Indicators*

→ 46

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

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

Zalando’s most important performance indicators are revenue, EBIT, adjusted EBIT, capex, the number of active customers and the average number of orders per active customer. These are forecasted for fiscal year 2019 in section 2.5, Outlook.

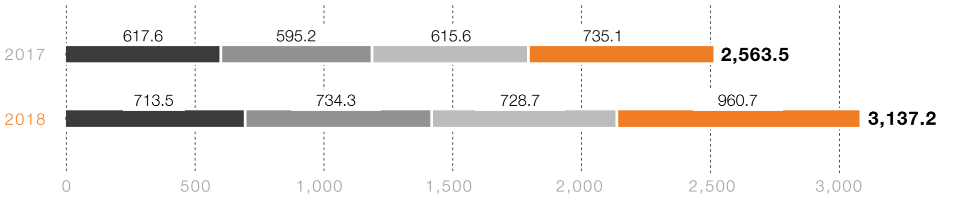
The rise in revenue is mainly attributable to a larger customer base and an increase in the number of orders. As of December 31, 2018, the group had 26.4 million active customers. This corresponds to an increase of 14.4% compared to the prior year, or 3.3 million additional active customers. The larger customer base ordered more frequently compared to the prior year with the average number of orders per active customer rising 12.3%. The higher number of customer orders, which increased by 28.4%, was driven in particular by a 22.4% increase in site visits. The considerable rise in these revenue drivers was enabled by our continued focus on investing in the consumer and brand proposition as well as in our technology and operations infrastructure. The average basket size decreased in fiscal year 2018 from EUR 64.5 to EUR 61.0, which was mostly driven by the increased mobile site visit share and increased share of lower priced items, such as fast fashion. Customers tend to shop more frequently but with a lower basket size.

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

Site Visits by Quarter (2017 – 2018)

→ 47

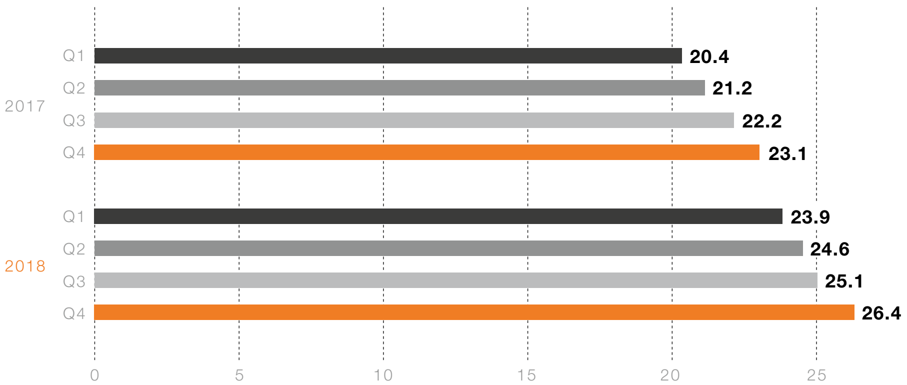
IN M



Number of Active Customers by Quarter (2017 – 2018)

→ 48

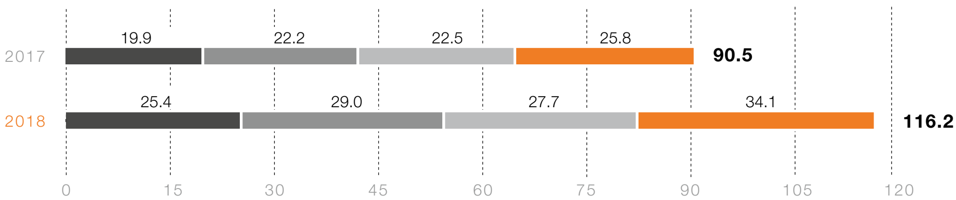
IN M



Number of Orders by Quarter (2017 – 2018)

→ 49

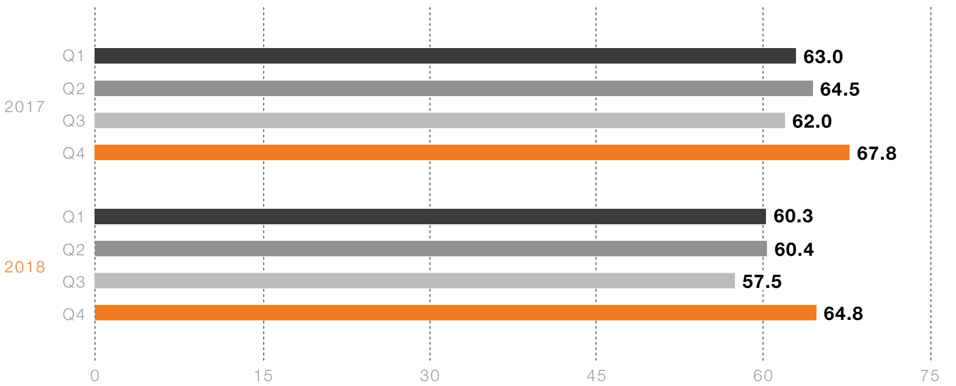
IN M



Average Basket Size by Quarter (2017 – 2018)

→ 50

IN EUR

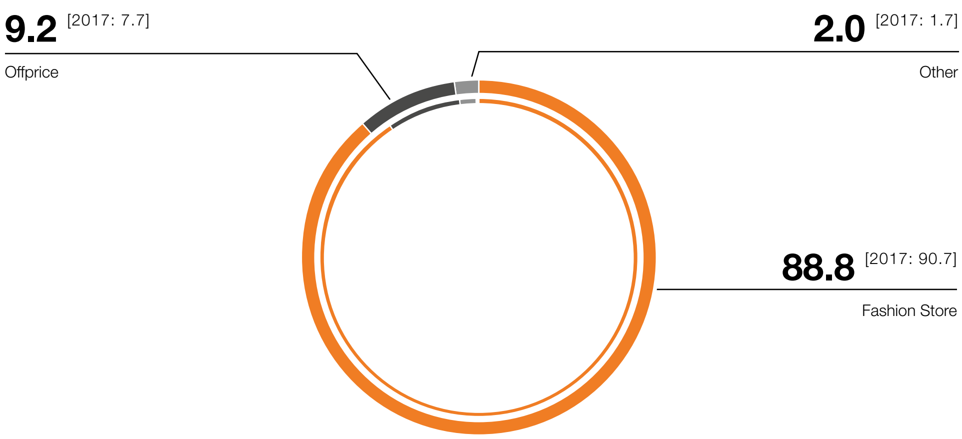


External revenue by segment breaks down as follows:

Revenue by Segment[34]

→ 51

IN %



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

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

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

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

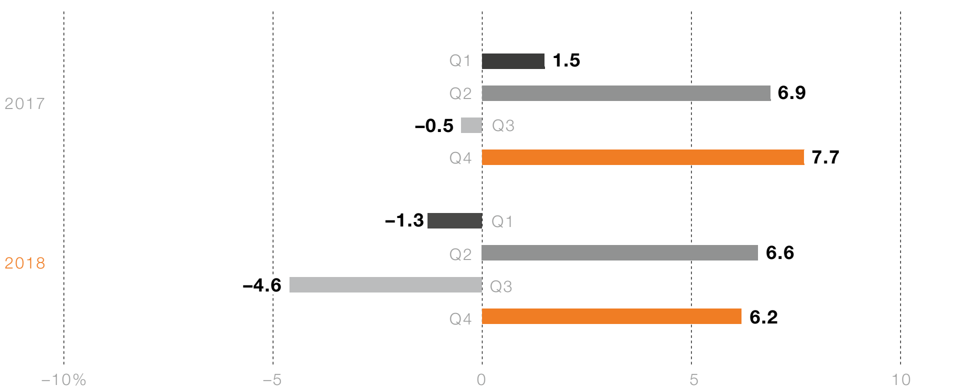
All other segments achieved revenue of EUR 444.8m in 2018 (prior year: EUR 345.3m), increasing by 28.8%. All other segments include the private label offering zLabels and various emerging businesses.

Development of EBIT

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

EBIT Margin by Quarter (2017–2018) → 52

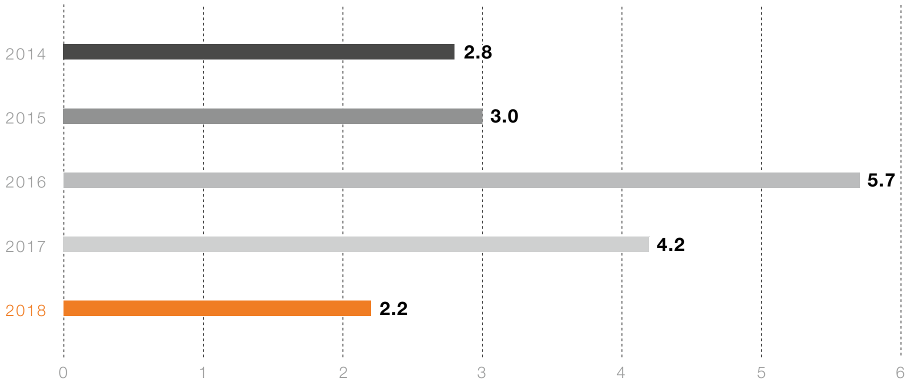
IN %



Yearly EBIT Margin (2014 – 2018)

→ 53

IN %

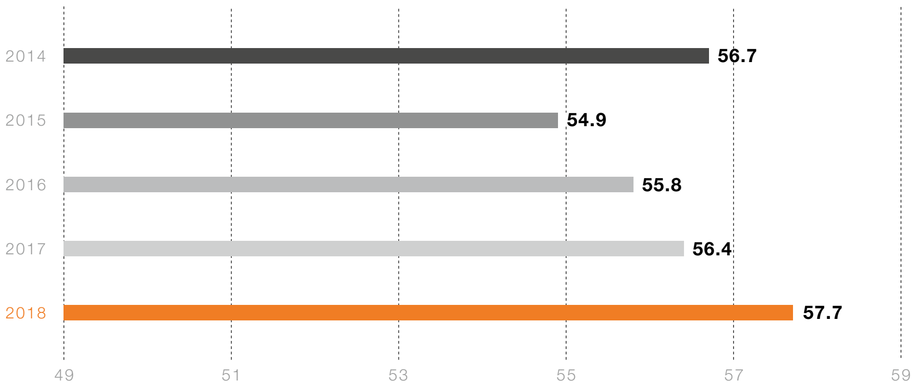


Five-Year Summary of Cost Items (Non-Adjusted)

Cost of Sales (2014 – 2018)

→ 54

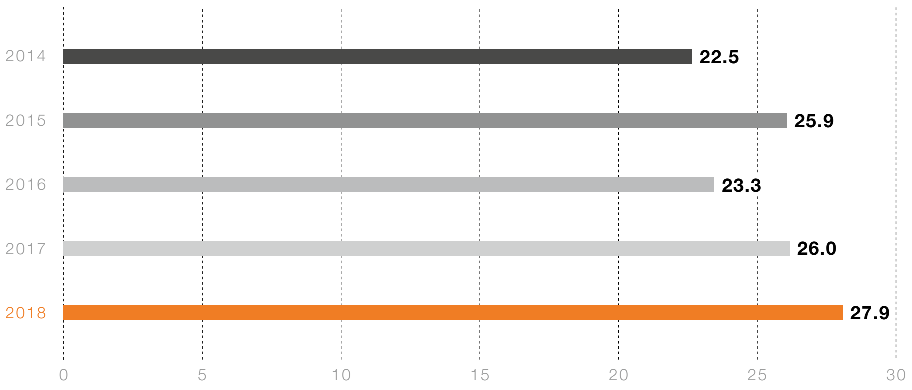
AS % OF REVENUE



Fulfillment Costs (2014 – 2018)

→ 55

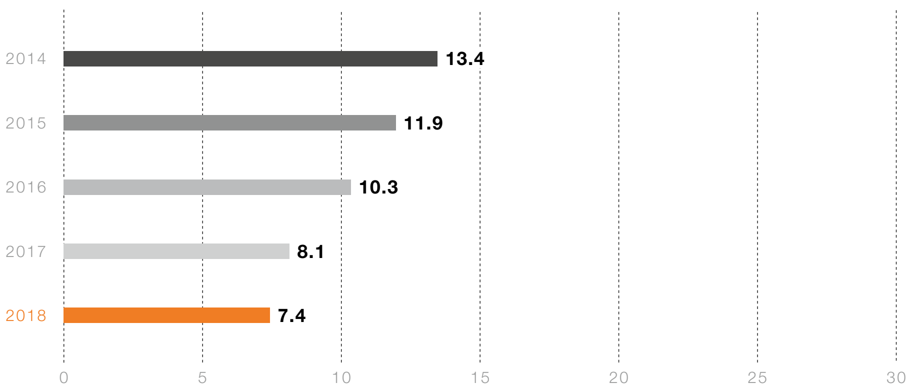
AS % OF REVENUE



Marketing Costs (2014 – 2018)

→ 56

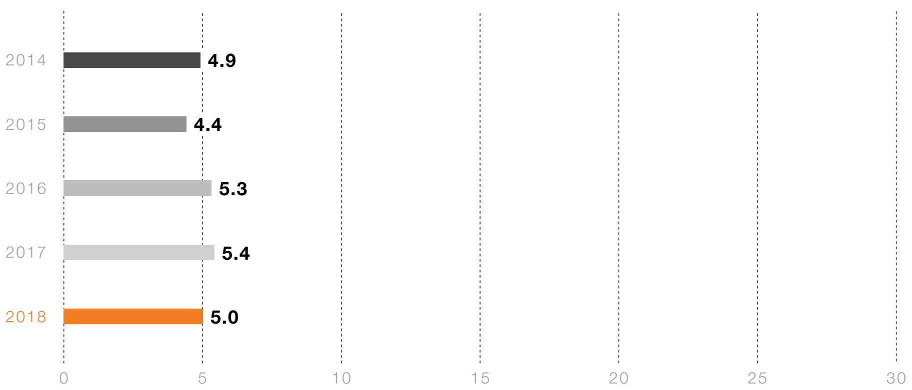
AS % OF REVENUE



Administrative Expenses (2014 – 2018)

→ 57

AS % OF REVENUE



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

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

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

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

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

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

Adjusted EBIT

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

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

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

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

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

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

Results by Segment

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

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

Segment Results of the Group 2018

→ 58

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

Segment Results of the Group 2017

→ 59

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

Fashion Store Results by Region 2018

→ 60

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

Fashion Store Results by Region 2017

→ 61

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

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

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

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

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

Adjusted EBIT by Segment

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

Share-Based Compensation Expenses per Segment

→ 62

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

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

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

Cash Flows

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

Further Information Consolidated Statement of Cash Flows p. 134

Condensed Statement of Cash Flows

→ 63

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

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

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

The capital employed in net working capital decreased compared to the prior year and thus positively impacted the cash flow. Net working capital, consisting of inventories and trade and other receivables less trade payables and similar liabilities, decreased from EUR –62.4m in the prior year to EUR –84.3m as of December 31, 2018 (also see section 2.2.3, Financial Position for details on net working capital development).

The cash outflow from investing activities mainly results from investments in the logistics infrastructure relating primarily to the fulfillment centers in Verona (Nogarole Rocca), Italy; Lodz (Gluchow), Poland; Szczecin (Gryfino), Poland; and Lahr and capital expenditures on internally developed software and also from furniture and fixtures. Capex, being the sum of the payments for investments in fixed and intangible assets excluding payments for acquisitions, amounted to EUR 278.4m (prior year: EUR 243.9m). Furthermore, in 2018 payments of EUR 57.0m were received resulting from the sale of a fulfillment center in Szczecin (Gryfino), Poland. The fulfillment center was leased back (operating lease) by Zalando after the sale. In 2018, an amount of EUR 7.1m was invested in corporate acquisitions (prior year: 34.9m).

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

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

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

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

Zalando's liquidity position – as the sum of cash and cash equivalents plus term deposits with an original term of more than three months but less than twelve months – declined in 2018 by EUR 90.5m to EUR 1,015.0m.

Credit Facility

On December 15, 2016, ZALANDO SE entered into a revolving credit facility for an amount of EUR 500m with a group of banks, renewing its EUR 200m revolving credit facility secured in 2014. This facility can be drawn in various currencies. The revolving credit facility can be utilized for general business purposes (including acquisitions) as well as for guarantees. The facility expires on December 15, 2023. As of December 31, 2018, an amount of EUR 69.7m was utilized by bank guarantees and letters of credit.

Financial Position

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

Further Information
Consolidated Statement of Financial Position
p. 130

Assets

→ 64

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

Equity and Liabilities

→ 65

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

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

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

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

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

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

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

Further Information
Consolidated Statement of Changes in Equity
p. 132

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

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

Overall Assessment

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

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

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

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

2.2.4 Employees

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

Additional information regarding our sustainability strategy is provided in the separate section 1.2, Corporate Responsibility[35].

Further Information
Corporate Responsibility
p. 8

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

2.3 Subsequent Events

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

2.4 Risk and Opportunity Report

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

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

2.4.1 Risk and Opportunity Management System

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

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

RMS Elements → 66

Risk and Opportunity Objectives

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

Risk and Opportunity Identification and Monitoring

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

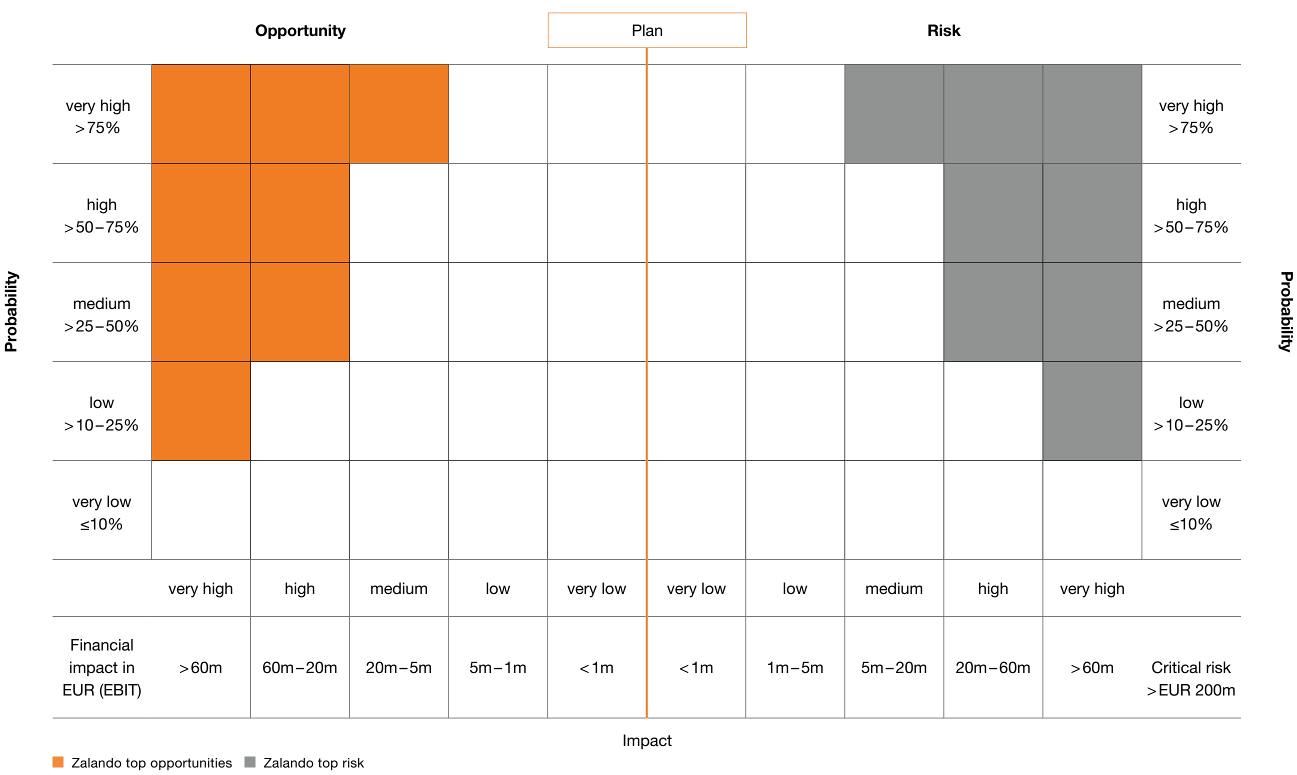
The systematic identification and utilization of opportunities are important elements in ensuring sustainable growth. Opportunities are considered in connection with possible risks and are only pursued if they outweigh the risks associated with them if risk steering is possible and if any risk impact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

Risk and Opportunity Assessment

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

Risk and Opportunity Matrix

→ 67



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

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

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

Risk and Opportunity Control

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

Risk and Opportunity Management Improvements and Reporting

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

System of Internal Controls over Financial Reporting

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

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

2.4.2 Illustration of Material Risks

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

Overview of Material Risks

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

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

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

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

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

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

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

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

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

Changing Regulatory Requirements

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

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

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

Impact of Climate Change on the Business Cases

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

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

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

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

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

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

Limited Capacities at Logistic Service Providers

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

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

Existing and New Regulatory Requirements Regarding Data Privacy

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

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

Cybersecurity Threats

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

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

2.4.3 Illustration of Opportunities

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

Convenience Proposition

Over the past years, Zalando has made significant investments to expand its pan-European logistics network focused on getting closer to customers, providing an opportunity to reduce lead times further as well as preparing for further growth. Scalable and innovative logistics provide a source of new growth opportunities for Zalando, as they not only enable the company to expand its coverage of convenience benefits, but they also enhance Zalando's attractiveness as an essential and effective logistics partner for fashion brands and retailers.

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

Strategic Partnerships

Fashion brands and retailers value Zalando as a preferred partner due to its fashion competency, technological capabilities and logistics network. Zalando helps partners connect with customers across Europe and helps them deal with some of the most complex and challenging issues they face across the fashion ecosystem. In these terms, Zalando enables brands and retailers within its Partner Program to sell their merchandise via the Zalando platform while maintaining full pricing freedom and control over their brand. Zalando's online brand shops are at the heart of this approach, enabling partners to interact directly with customers and build loyalty for their brand.

In response to the rapid pace of transformation in the fashion ecosystem, Zalando has expanded its partner proposition to help brands stay on top of new developments and technologies. The company has moved beyond providing data insight tools to offering holistic technology solutions tailored to partners' specific needs including Zalando Fulfillment Solutions (ZFS), stock integration technologies, marketing and advertising services (ZMS) and Connected Retail.

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

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

Markets and Segments

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

We continue to offer our customers an increasingly large and courageous fashion assortment in our Men, Women, Children, Sport and Premium categories. We complement this approach with exclusive collections such as those by Karl Lagerfeld and new segments like Beauty.
With the introduction of Beauty, Zalando offers its customers even more inspiration and establishes itself as the platform for fashion and lifestyle in Europe. Zalando Beauty has launched over 120 brands. Our Zalando Beauty concept store in Berlin further strengthens our customer interaction.

Zalando adapts its customer and partner proposition to every single market in which it operates. Localization is and will continue to be one of Zalando's core differentiators as we keep building our image of a local fashion specialist through country-specific campaigns and by reflecting local characteristics in our respective sales approach.

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

Knowledge

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

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

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

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

2.5 Outlook

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

2.5.1 Future Overall Economic and Industry-Specific Situation

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

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

2.5.2 Future Development of the Group

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

36) Euromonitor, Europe excl. Russia, Germany
37) ibid
38) ibid
39) ibid
40) ibid Euromonitor, Germany
41) Ibid

The European online fashion market is expected to grow about 4.5% in 2019. Zalando forecasts GMV growth of 20% to 25% (fiscal year 2018: 21.1%) and revenue growth at the low end of this range in fiscal year 2019 (fiscal year 2018: 20.0%). We expect revenue growth in 2019 to be primarily driven by an increase of the active customer base as well as an increase in the number of orders per active customer. We expect both drivers to contribute in a balanced way.

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

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

2.5.3 Overall Assessment by the Management Board of ZALANDO SE

Overall, the Management Board views the developments in fiscal year 2018 and the economic position of Zalando as positive. Zalando showed significant growth, made important long-term investments and achieved a solid level of profitability. The company has grown considerably in all markets and has improved its market position further. In 2019, Zalando expects to be able to continue the strong business performance seen in the past fiscal year.

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

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

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

2.6.1 Business Activity

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

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

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

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

2.6.2 Economic Situation of ZALANDO SE

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

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

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

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

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

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

Revenue of ZALANDO SE by Geographical Region

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IN EUR M	2018		2017		Change	
DACH*	2,604.5	48.8%	2,350.1	52.5%	254.4	10.8%
Rest of Europe**	2,734.0	51.2%	2,129.5	47.5%	604.5	28.4%
Total	**5,338.5**	**100.0%**	**4,479.6**	**100.0%**	**858.9**	**19.2%**

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

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

The cost of materials rose by EUR 524.5m to EUR 3,058.4m, in line with the expansion of business. The increase of 0.7 percentage points in the ratio of the cost of materials to revenue to 57.3% can be primarily attributed to a higher average discount rate in fiscal year 2018. Overall, the company generated a gross profit of EUR 2,441.1m in fiscal year 2018 (prior year: EUR 2,031.1m).

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

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

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

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

The financial result mainly comprises impairments of financial investments of EUR 49.4m (prior year: EUR 0.0) as well as income and expenses from profit transfers of EUR 4.6m (prior year: EUR 6.6m), mainly from the Zalando Outlets and Zalando Marketing Solutions during the reporting period.

Income taxes include the deferred taxes and current income taxes paid or payable. They comprise trade tax, corporate income tax and a solidarity surcharge. As in the prior year, the statutory corporate income tax rate, including solidarity surcharge, for the assessment period 2018 was 15.8%. The applicable trade tax rate was 14.8% as in the prior year.

Current and deferred taxes are presented in the following table.

Income Taxes

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

In fiscal year 2018, deferred tax liabilities of EUR 8.1m were recognized, mainly due to the capitalization of internally generated intangible assets.

Net Assets and Financial Position

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

Assets

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IN EUR M	Dec 31, 2018		Dec 31, 2017		Change
Non-current assets	656.7	20.0%	620.3	21.2%	36.4
Current assets	2,622.6	79.7%	2,292.8	78.3%	329.8
Prepaid expenses	9.1	0.3%	14.3	0.5%	–5.2
Total assets	**3,288.4**	**100.0%**	**2,927.4**	**100.0%**	**361.0**

Equity and Liabilities

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

The total assets of ZALANDO SE rose by around 12.7% as a result of a further increase in business volume. The assets of the company primarily consist of current assets, specifically inventories and cash and cash equivalents. Equity and liabilities exclusively comprise equity and current liabilities and provisions.

In fiscal year 2018, capital expenditures focused on intangible assets (EUR 43.6m) and financial assets (EUR 100.6m). Investing activities were financed exclusively from the group's own funds.

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

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

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

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

The cash flow from investing activities in fiscal year 2018 was mainly driven by capital increases in subsidiaries that were used to invest in the fulfillment infrastructure, as well as to further expand the respective business segments of the subsidiaries. Cash and cash equivalents consist of cash on hand and bank balances as well as fixed-term deposits at financial institutions and in money market funds due within three months.

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

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

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

2.6.3 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.

2.6.4 Outlook

The statements made on market trends the development of revenue and the results for the group also apply here by virtue of the close ties between ZALANDO SE and the group companies and its weight within the group. The statements also reflect the expectations for the parent company in terms of trends and intensity of the expected developments of the major key performance indicator.

Berlin, February 25, 2019

Robert Gentz David Schneider Rubin Ritter

Consolidated Financial Statements

3.1

Consolidated Statement of Comprehensive Income

Consolidated Income Statement

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IN EUR M	Notes	Jan 1 – Dec 31, 2018	Jan 1 – Dec 31, 2017
Revenue	(1.)	5,387.9	4,489.0
Cost of sales	(2.)	–3,107.0	–2,529.6
Gross profit		**2,280.9**	**1,959.4**
Selling and distribution costs	(3.)	–1,899.2	–1,530.8
Administrative expenses	(4.)	–268.9	–242.9
Other operating income	(5.)	18.7	11.8
Other operating expenses	(6.)	–12.3	–9.9
Earnings before interest and taxes (EBIT)		**119.2**	**187.6**
Interest and similar income		5.7	3.9
Interest and similar expenses		–15.4	–14.5
Result of investments accounted for using the equity method		–3.5	0.3
Other financial result		–0.4	–2.2
Financial result	(7.)	**–13.6**	**–12.4**
Earnings before taxes (EBT)		**105.6**	**175.2**
Income taxes	(8.)	–54.4	–73.6
Net income for the period		**51.2**	**101.6**
Thereof net income attributable to the shareholders of ZALANDO SE		51.4	103.1
Thereof net income attributable to non-controlling interests		–0.2	–1.6
Net income for the period as percentage of revenue		0.9%	2.3%
Basic earnings per share (in EUR)	(9.)	0.21	0.42
Diluted earnings per share (in EUR)	(9.)	0.20	0.40

Further Information
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Consolidated Statement of Comprehensive Income

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IN EUR M	Jan 1 – Dec 31, 2018	Jan 1 – Dec 31, 2017
Net income for the period	**51.2**	**101.6**
Items recycled to profit or loss in subsequent periods		
Effective portion of gains / losses from cash flow hedges, net of tax	–12.6	8.9
Exchange differences on translation of foreign financial statements	–1.0	3.1
Other comprehensive income	–13.6	12.0
Total comprehensive income	**37.5**	**113.6**
Thereof total comprehensive income attributable to the shareholders of ZALANDO SE	37.8	114.8
Thereof total comprehensive income attributable to non-controlling interest	–0.2	–1.6

3.2 Consolidated Statement of Financial Position

Consolidated Statement of Financial Position – Assets

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IN EUR M	Notes	Dec 31, 2018	Dec 31, 2017
Non-current assets			
Intangible assets	(11.)	189.1	182.3
Property, plant and equipment	(12.)	546.4	350.5
Financial assets	(13.)	13.7	25.9
Deferred tax assets	(8.), (26.)	2.3	1.4
Non-financial assets	(13.)	3.8	3.5
Investments accounted for using the equity method	(14.)	5.0	5.9
		760.2	*569.6*
Current assets			
Inventories	(15.)	819.5	778.9
Prepayments	(15.)	13.2	2.6
Trade and other receivables	(16.)	395.1	278.7
Other financial assets	(17.)	59.3	80.7
Other non-financial assets	(17.)	191.4	152.7
Cash and cash equivalents	(18.)	995.0	1,065.5
Assets held for sale	(12.)	0.0	51.5
		2,473.5	*2,410.7*
Total assets		**3,233.7**	**2,980.3**

Further Information
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Consolidated Statement of Financial Position – Equity and Liabilities

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IN EUR M	Notes	Dec 31, 2018	Dec 31, 2017
Equity			
Issued capital		247.9	247.2
Capital reserves		1,155.6	1,182.4
Other reserves		–4.9	8.7
Retained earnings		150.7	100.7
Equity of shareholders of ZALANDO SE		1,549.2	1,539.0
Non-controlling interest		–0.1	–0.1
	(19.)	*1,549.1*	*1,538.9*
Non-current liabilities			
Provisions	(21.)	34.0	15.8
Borrowings	(24.)	5.6	8.4
Other financial liabilities		2.4	4.5
Other non-financial liabilities		5.5	7.9
Deferred tax liabilities	(8.), (26.)	23.5	35.4
		70.9	*71.9*
Current liabilities			
Provisions	(21.)	0.1	0.3
Borrowings	(24.)	2.8	2.8
Trade payables and similar liabilities	(22.)	1,298.9	1,120.0
Prepayments received	(22.)	36.1	32.0
Income tax liabilities		27.7	6.4
Other financial liabilities	(23.)	104.6	84.0
Other non-financial liabilities	(23.)	143.5	123.9
		1,613.7	*1,369.5*
Total equity and liabilities		**3,233.7**	**2,980.3**

3.3 Consolidated Statement of Changes in Equity

Consolidated Statement of Changes in Equity 2018

IN EUR M	Notes	Issued capital	Capital reserves
As of Jan 1, 2018		**247.2**	**1,182.4**
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.)	3.3	38.2
Initial application of IFRS 9		0.0	0.0
Repurchase of treasury shares	(19.)	–2.6	–108.3
Share-based payments	(20.)	0.0	43.3
Equity transactions with changes of stake		0.0	0.0
As of Dec 31, 2018		**247.9**	**1,155.6**

Consolidated Statement of Changes in Equity 2017

IN EUR M	Notes	Issued capital	Capital reserves
As of Jan 1, 2017		**247.2**	**1,161.0**
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.)	0.1	0.5
Repurchase of treasury shares	(19.)	–0.2	–6.6
Share-based payments	(20.)	0.0	27.5
Equity transactions with changes of stake		0.0	0.0
As of Dec 31, 2017		**247.2**	**1,182.4**

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Other reserves					
Cash flow hedges	**Currency translation**	**Retained earnings**	**Shareholders of ZALANDO SE**	**Non-controlling interest**	**Total**
7.6	**1.2**	**100.7**	**1,539.0**	**–0.1**	**1,538.9**
0.0	0.0	51.4	51.4	–0.2	51.2
–12.6	–1.0	0.0	–13.6	0.0	–13.6
–12.6	**–1.0**	**51.4**	**37.8**	**–0.2**	**37.6**
0.0	0.0	0.0	41.5	0.0	41.5
0.0	0.0	–0.8	–0.8	0.0	–0.8
0.0	0.0	0.0	–110.9	0.0	–110.9
0.0	0.0	0.0	43.3	0.0	43.3
0.0	0.0	–0.6	–0.6	0.1	–0.5
–5.0	**0.1**	**150.7**	**1,549.2**	**–0.2**	**1,549.1**

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Other reserves					
Cash flow hedges	**Currency translation**	**Retained earnings**	**Shareholders of ZALANDO SE**	**Non-controlling interest**	**Total**
–1.3	**–1.9**	**2.5**	**1,407.5**	**0.0**	**1,407.5**
0.0	0.0	103.1	103.1	–1.6	101.6
8.9	3.1	0.0	12.0	0.0	12.0
8.9	**3.1**	**103.1**	**115.1**	**–1.6**	**113.6**
0.0	0.0	0.0	0.6	0.0	0.6
0.0	0.0	0.0	–6.7	0.0	–6.7
0.0	0.0	0.0	27.5	0.0	27.5
0.0	0.0	–4.9	–4.9	1.5	–3.5
7.6	**1.2**	**100.7**	**1,539.0**	**–0.1**	**1,538.9**

3.4

Consolidated Statement of Cash Flows

Consolidated Statement of Cash Flows

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IN EUR M			Notes	Jan 1 – Dec 31, 2018	Jan 1 – Dec 31, 2017
1.		Net income for the period		51.2	101.6
2.	+	Non-cash expenses from share-based payments	(20.)	43.3	27.5
3.	+	Depreciation of property, plant and equipment and amortization of intangible assets	(11.), (12.)	86.5	58.7
4.	+ / –	Income taxes	(8.)	54.4	73.6
5.	–	Income taxes paid, less refunds		–42.2	–49.4
6.	+ / –	Increase / decrease in provisions	(21.)	0.3	–1.5
7.	– / +	Other non-cash income / expenses		4.2	6.5
8.	+ / –	Decrease / increase in inventories	(15.)	–40.6	–189.4
9.	+ / –	Decrease / increase in trade and other receivables	(16.)	–116.4	–61.6
10.	+ / –	Increase / decrease in trade payables and similar liabilities	(22.)	180.6	198.4
11.	+ / –	Increase / decrease in other assets / liabilities	(13.), (17.), (23.)	–8.5	29.2
12.	**=**	**Cash flow from operating activities**	**(25.)**	**212.8**	**193.7**
13.	+	Proceeds from disposal of non-current assets	(12.)	58.9	0.0
14.	–	Cash paid for investments in property, plant and equipment	(12.)	–226.1	–189.1
15.	–	Cash paid for investments in intangible assets	(11.)	–52.3	–54.8
16.	–	Cash paid for acquisitions of shares in associated companies and acquisition of companies and prepayments for such acquisitions	(14.)	–7.1	–34.9
17.	+ / –	Cash received / paid for investments in term deposits	(17.)	20.0	180.0
18.	+ / –	Change in restricted cash	(13.)	–0.4	10.4
19.	**=**	**Cash flow from investing activities**	**(25.)**	**–207.0**	**–88.3**
20.	+	Cash received from capital increases by the shareholders less transaction costs	(19.)	38.2	3.9
21.	–	Repurchase of treasury shares	(19.)	–110.9	–6.7
22.	–	Payments for shares in other entities without change in control	(19.)	–0.4	–4.6
23.	–	Cash repayments of loans	(24.)	–2.8	–3.2
24.	**=**	**Cash flow from financing activities**	**(25.)**	**–75.9**	**–10.6**
25.	=	Net change in cash and cash equivalents from cash relevant transactions		–70.1	94.8
26.	+ / –	Change in cash and cash equivalents due to exchange rate movements		0.3	–1.9
27.	+	Cash and cash equivalents at the beginning of the period		1,064.7*	972.6
28.	**=**	**Cash and cash equivalents as of Dec 31**		**995.0**	**1,065.5**

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

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

Cash-Relevant Interest

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IN EUR M	Jan 1 – Dec 31, 2018	Jan 1 – Dec 31, 2017
Interest paid	–13.7	–13.5
Interest received	3.4	2.0
Total	**–10.2**	**–11.5**

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

Free Cash Flow

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IN EUR M	Jan 1 – Dec 31, 2018	Jan 1 – Dec 31, 2017
Cash flow from operating activities	212.8	193.7
Proceeds from disposal of non-current assets	58.9	0.0
Cash paid for investments in property, plant and equipment	–226.1	–189.1
Cash paid for investments in intangible assets	–52.3	–54.8
Cash paid for acquisitions of shares in associated companies and acquisition of companies and prepayments for such acquisitions	–7.1	–34.9
Free cash flow	**–13.8**	**–85.0**

3.5 Notes to the Consolidated Financial Statements

3.5.1 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. Zalando was founded in 2008. The shares of the company have been listed on the regulated market (Prime Standard) at the Frankfurt Stock Exchange since October 1, 2014.

Nature of Operating Activities

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

For more information on Zalando's business model and its nature of operating activities, please refer to section 2.1.1 Business Model of our combined management report.

3.5.2 General Principles

Application of IFRS

The consolidated financial statements of ZALANDO SE for the fiscal year from January 1 to December 31, 2018, 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 Section 315e (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 euros. Due to rounding, it is possible that figures may not add up exactly to the total stated, and the percentages presented may not precisely reflect the figures they correspond to.

3.5.3 New Accounting Standards

Effects of New or Amended IFRS Relevant for Fiscal Year 2018

The consolidated financial statements take into account all IFRS endorsed as of the reporting date and whose adoption is mandatory in the European Union.

New IFRS relate to the first-time application of IFRS 9 "Financial Instruments" and IFRS 15 "Revenue from Contracts with customers." Amendments relate to minor changes of IFRS 1, IFRS 12 and IAS 28 (Annual Improvements 2014–2016) as well as to IFRS 2, IFRS 4, IFRS 15 and IAS 40.

In addition, IFRIC 22 "Foreign Currency Transactions and Advance Consideration" is applied for the first time in fiscal year 2018. For all changes, application has been mandatory since January 1, 2018.

No amended standards or interpretations subject to first-time application in fiscal year 2018 have had any material impact on Zalando's financial performance, position or disclosure.

Transition to IFRS 9

Zalando has adopted IFRS 9 "Financial Instruments" for the accounting period beginning on January 1, 2018. The transition to the new standard is retrospective but without any adjustment being made to the comparative figures. Rather, the difference between the former carrying amount and the carrying amount in the opening statement of financial position at the beginning of the fiscal year has been recognized in the capital reserves.

IFRS 9 introduces a uniform approach for classifying and measuring financial assets. Classification is based on the contractual cash flow characteristics and the business model by which these are managed. Furthermore, the standard provides a new risk provision model that now also accounts for expected losses. Moreover, IFRS 9 contains new rules on hedge accounting which provide more useful information about the risk management activities of entities using financial instruments.

If the cash flows of a financial asset represent solely payments of principal and interest and the objective of the business model is to hold the asset, then subsequent measurement is at amortized cost. If the objective of the business model involves the sale of the financial asset, the asset is measured at fair value through other comprehensive income. In all other cases, the financial asset is measured at fair value through profit or loss.

The new classification requirements only lead to marginal changes in equity interests, which are now measured at fair value through profit or loss. Zalando will not exercise the option to irrevocably designate these instruments at fair value through other comprehensive income. The impact on the classification and associated carrying amounts of financial instruments is presented in the following table.

Effect of the First-Time Application of IFRS 9

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IN EUR M	Category pursuant to IAS 39*	Carrying amount as of Dec 31, 2017	Category pursuant to IFRS 9**	Carrying amount as of Jan 1, 2018	Effect of the first-time application of IFRS 9
Assets					
Cash and cash equivalents	LaR	1,065.5	AC	1,064.7	–0.8
Trade receivables	LaR	278.7	AC	278.7	0.0
Other financial assets	LaR	64.7	AC	64.7	0.0
Derivative financial instruments designated as hedging instruments	n.a.	17.2	n.a.	17.2	0.0
Other derivative financial instruments	FVtPL	20.6	FVtPL	20.6	0.0
Corporate investments	AfS	4.1	FVtPL	4.1	0.0
Liabilities					
Trade payables	FLAC	1,120.0	AC	1,120.0	0.0
Financial liabilities	FLAC	11.2	AC	11.2	0.0
Other financial liabilities	FLAC	78.3	AC	78.3	0.0
Derivative financial instruments designated as hedging instruments	n.a.	5.7	n.a.	5.7	0.0
Other derivative financial instruments	FVtPL	2.1	FVtPL	2.1	0.0

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

**) AC – Amortized Cost
FVtPL – at Fair Value through Profit or Loss
n.a. – not assigned to a category

In addition to the classification requirements, the impairment model used for financial assets has also changed. All financial assets that are not measured at fair value through profit or loss are subject to the new impairment model.

The first step for all financial assets that are not purchased or originated credit-impaired is to record a loss allowance for the 12-month expected credit losses. At Zalando, this results in a loss allowance at the transition date of EUR 0.8m for the cash held at banks, which is recognized in the retained earnings.

If there has been a significant increase in the credit risk, the second step would involve assessing the lifetime expected credit losses. The third step also involves assessing the lifetime expected credit losses. This approach is reserved for those financial assets that were purchased or originated credit-impaired. In contrast to the impairment model used in the second step, the effective interest rate in the third step would be determined using the net value.

The standard provides a simplified approach for trade receivables. In light of the fact that these instruments fall due in the short term and therefore the financing component is not significant, an impairment is measured from inception at an amount equal to the lifetime expected credit losses (bad debt allowances; see section 3.5.7 (16.)). As Zalando already determined such impairments in the past, in keeping with industry practice, the new impairment model does not have any impact.

The requirements for classifying financial liabilities do not lead to any changes at Zalando. With the exception of contingent consideration (IFRS 3), which is measured at fair value through profit or loss, all financial liabilities continue to be measured at amortized cost. The table above also compares the individual measurement categories for financial liabilities and their respective carrying amounts.

The amendments relating to hedge accounting lead to reporting relief in the assessment of the effectiveness of hedging relationships and the designation of the underlying and the hedging instruments. On the one hand, the strict limit on determining hedge ineffectiveness no longer applies and, on the other, there is now a possibility to hedge an aggregated exposure.

Zalando has set itself a risk management strategy and, from this basis, derived risk management objectives for the individual hedges. In accordance with these requirements, Zalando continues to hedge against the foreign exchange risk attached to its purchases denominated in USD and GBP and the associated trade payables. Furthermore, merchandise sales denominated in foreign currency continue to be hedged. Likewise, floating rate bank loans are hedged against the interest risk.

Zalando has applied the new requirements on hedge accounting prospectively since January 1, 2018. The hedge relationships already recognized on this date have been continued, as they met the designation criteria of IFRS 9. Rebalancing was not necessary. As a result, there were no material changes for Zalando.

Transition to IFRS 15

Zalando adopted IFRS 15 “Revenue from Contracts with Customers” in the fiscal year beginning on January 1, 2018. The transition to the new standard is retrospective; however, without any adjustment being made to the comparative figures. Rather, the accumulated adjustment from first-time application would have been recognized in the capital reserves in the opening statement of financial position. However, there is no such adjustment at Zalando.

IFRS 15 introduces a five-step model to determine the point in time (or over time) of recognition and the amount of revenue to be recognized, which Zalando uses to assess its business transactions.

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. All revenues at Zalando qualify as contracts with customers and therefore fall within the scope of the new standard.

At contract inception, the standard requires that all promised goods and services be assessed and the performance obligations be identified. Apart from the express delivery option, the goods or services promised by Zalando (goods, free delivery and returns with a return policy of up to 100 days, free customer care) create a bundle that is distinct, i.e. the single identified performance obligation.

Zalando makes a distinction between a promise to transfer control over the asset (wholesale) and promises to arrange for a third party to provide goods or services to the customer (Partner Program). Depending on which of these is involved, revenue is recognized either in full or at an amount equivalent to the commission that is expected to be received from the partner.

The right of return granted by Zalando is considered by only recognizing revenue at the amount of the sales for which no returns are expected. When assessing the rate of returns, Zalando uses information that includes country-specific and payment option-specific return histories and adjusts these regularly. This was already done by Zalando before introduction of the the new standard.

As in the past, 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 liability vis-à-vis the customer within other current financial liabilities.

The transaction price to be recognized as revenue arises from the itemized prices of the shipment. However, revenue is recorded net of sales deductions. Any discounts granted on the total order are allocated to the respective goods making up the order in proportion to their stand-alone selling price. By contrast, discounts that are granted on specific articles are allocated only to these articles.

Zalando satisfies its performance obligations at a point in time, i.e. when the customer obtains control over the promised goods or services. This is generally when the goods are delivered to the customer. To date, Zalando has already taken into account the fact that partial deliveries may arrive at the customer at different times. Consequently, the revenue of an order can be recognized at different times. There are no significant financing components or contractual costs for Zalando.

Consequently, application of the new standard does not have any impact on the carrying amounts of assets and liabilities reported in the consolidated statement of financial position. However, a breakdown of revenue by category and a presentation of the relationship to the disclosures on segment revenue is nevertheless provided in the note (1.) Revenue.

New or Amended IFRS Not Yet Applied

The following accounting standards and amendments to 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
Amendments to IFRS 9	Prepayment features with negative compensation	The amendment clarifies that the previous designation of a financial asset or liability can be revoked if there is a change in specific conditions regarding an accounting mismatch.
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). There will also be changes within the statement of profit or loss. Firstly, there is an interest expense on the outstanding lease liability. Secondly, depreciation of the right-of-use asset has to be shown instead of lease expenses. Thirdly, the cost burden at the beginning of a lease will be higher than at the end due to the frontloading effect. Furthermore, the majority of lease payments will no longer be shown in cash flow from operating activities but in cash flow from financing activities. For lessors, IFRS 16 continues to distinguish between finance leases and operating leases for accounting purposes. Zalando acts exclusively as a lessee and not as a lessor. It is currently not intended to change this in the future.
IFRS 17	Insurance contracts	IFRS 17 contains a consistent model to account for insurance contracts. The standard establishes principles for the recognition, measurement, presentation and disclosures of insurance contracts and eliminates differences in accounting practices. IFRS 17 supersedes the interim standard IFRS 4.
Amendments to IAS 28	Long-term interests in associates and joint ventures	Clarification to the application of IFRS 9 for specific long-term interests outside the scope of IAS 28.
Improvements to International Financial Reporting Standards 2017 (Annual Improvements 2015–2017)		Minor amendments to a large number of IFRSs (IFRS 3, IFRS 11, IAS 12, IAS 23).
Amendments to References to the Conceptual Framework in IFRS Standards		The IASB issued in 2018 a revised version of its Conceptual Framework for Financial Reporting. Therefore, references in various standards, interpretations and IFRS practice statements were updated so that they refer to the 2018 Conceptual Framework.
Amendments to IFRS 3	Definition of a business	Clarifies the minimum requirements for transactions or other events to be considered as a business. Furthermore, guidance on application and illustrative examples were enhanced.
Amendments to IAS 1 and IAS 8	Definition of material	Clarifies the definition of material, its application on financial statements as well as enhances and unifies guidelines regarding the application of material.
Amendments to IAS 19	Plan amendment, curtailment or settlement	Clarification on the recognition and measurement of defined benefit plans.

IASB effective date	Endorsed by the EU	Anticipated effects
January 1, 2019, early adoption permitted	Yes	Application has no significant effect on the consolidated financial statements.
January 1, 2019, early adoption permitted	Yes	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 under IAS 17 will increase the sum of total assets and the sum of total equity and liabilities. The increase is expected to be around EUR 472.0m at the transition date (January 1, 2019). This will have a non-recurring impact on certain financial indicators upon transition, particularly the equity ratio is expected to fall by around 6.5 percentage points. Moreover, the recognition of interest expenses will burden the financial result (effect expected to be less than EUR 11.0m for the financial year beginning on January 1, 2019). EBITDA will increase significantly (effect expected by around EUR 75.0m) due to the depreciation of the right-of-use asset instead of the recognition of lease expenses. EBIT will also improve due to a lower depreciation expense for the right-of-use asset in comparison to the previous lease expenses. The increase in EBIT will be around EUR 7.0m. Bottom-line, net income of the period will only be minimally negatively affected (front loading effect to be lower than EUR 4.0m). In addition, lease payments will no longer be reported in cash flow from operating activities but in cash flow from financing activities, and the disclosures required in the notes will be extended. The effect of the reclassification within the consolidated statement of cash flows will be around EUR 54.0m. Zalando plans to apply the standard using the modified retrospective approach with no restatement of comparative information. We will measure the right-of-use asset with an amount equal to the lease liability at the date of initial application. Zalando will account for leases with a remaining lease term of 12 months or less at the date of initial application as short term leases. Zalando will also use the practical expedient not to reassess whether a contract is or contains a lease at the date of initial application for all contracts already assessed in previous periods applying IAS 17 and IFRIC 4. Furthermore, Zalando will use the practical expedient not to separate non-lease and lease components for leases relating to other equipment, furniture and fixtures. Zalando will also elect to use the exemptions relating to low-value and short-term leases.
January 1, 2021, early adoption permitted (IASB voted to propose a one-year deferral of the effective date to 2022)	No	Zalando has no transactions within the scope of the new standard. Therefore, Zalando does not need to apply IFRS 17.
January 1, 2019, early adoption permitted	Yes	Zalando does not have interests in an associate or joint venture to which the equity method is not applied. Hence, there will be no effect.
January 1, 2019, early adoption permitted	No	Application is not expected to have significant impact on the consolidated financial statements.
January 1, 2020, early adoption permitted	No	Application is not expected to have significant effect on the consolidated financial statements.
January 1, 2020, early adoption permitted	No	Application is not expected to have significant effect on the consolidated financial statements.
January 1, 2020, early adoption permitted	No	Application is not expected to have significant effect on the consolidated financial statements.
January 1, 2020	No	Application is not expected to have significant effect on the consolidated financial statements.

Additionally, the IASB issued IFRIC 23 (Uncertainty over Treatments), which is endorsed by the EU and shall be applied for annual periods beginning on or after January 1, 2019. This interpretation is not expected to have any material impact on Zalando's financial performance and position.

3.5.4 Principles of Consolidation

Basis of Consolidation

The number of subsidiaries included in the basis of consolidation increased from 40 (prior year) to 44 on account of entities founded and acquired in fiscal year 2018.

Reporting Date of the Consolidated Financial Statements

The consolidated financial statements cover fiscal year 2018 on the basis of the reporting period from January 1 to December 31, 2018. Apart from abbreviated reporting periods due to the establishment or acquisition 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 identifiable assets, liabilities and contingent liabilities is shown as goodwill. A credit difference is recorded in the income statement.

The consolidated financial statement comprise 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 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 same applies to joint ventures within the meaning of IFRS 11, i.e. arrangements whereby two or more parties have joint control over the net assets of the arrangement. Such investments are initially recorded at cost and subsequently updated to include any changes in the share of the investee's (joint controller's) net assets attributable to the investor (joint controller) after the acquisition date.

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

Currency Translation

The consolidated financial statements are presented in euros, 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 euros at the mean exchange rate prevailing as of the reporting date. Income and expenses in the statements of comprehensive income are translated into euros at the annual average exchange rate pursuant to IAS 21.40. Exchange rate differences arising in the statement of financial position or statement of comprehensive income 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

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		Closing rate		Annual average rate	
	ISO Code	Dec 31, 2018	Dec 31, 2017	2018	2017
British pound	GBP	0.89453	0.88723	0.88471	0.87667
Chinese yuan renminbi	CNY	7.87510	7.80440	7.80808	7.62900
Czech koruna	CZK	25.72400	25.53500	25.64700	26.32578
Danish krone	DKK	7.46730	7.44490	7.45317	7.43863
Hong Kong dollar	HKD	8.96750	9.37200	9.25594	8.80451
Norwegian krone	NOK	9.94830	9.84030	9.59749	9.32704
Polish zloty	PLN	4.30140	4.17700	4.26149	4.25701
Swedish krona	SEK	10.25480	9.84380	10.25826	9.63509
Swiss franc	CHF	1.12690	1.17020	1.15496	1.11167
US dollar	USD	1.14500	1.19930	1.18095	1.12968

3.5.5 Accounting Policies

Intangible Assets

Intangible assets are measured at amortized cost. 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. In 2018, no indication that an asset may be impaired exists.

Internally generated intangible assets are recognized at development cost if they satisfy the prerequisites of IAS 38 "Intangible Assets," i.e., a newly developed or significantly enhanced product/software can be unambiguously identified, is intended to be completed and Zalando has the necessary resources to do so, 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 about 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 under development 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, 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 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). The fair value less costs of disposal is preferred only for transactions to be tested which occurred close to the reporting date. 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 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. For startup businesses and similar subjects that need to be tested, an additional period between planning phase and terminal value is added to reflect the transition to a steady state situation.

From the perspective of the group, intangible assets under development and goodwill acquired in business combinations are material. They are tested for impairment on the cash-generating unit level once a year. All other assets being tested are immaterial and concern units outside of the core business of Zalando. The total amount of the impairment losses arising from impairment testing is immaterial from a group perspective.

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. Depreciation is charged over the following useful lives.

Useful Lives → 85

	Years
Leasehold improvements	11–17
Plant and machinery	5–15
Other equipment, furniture and fixtures	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 consolidated income statement when the asset is derecognized.

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

Impairment of Non-Financial Assets

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

Current Versus Non-Current Classification

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

An asset is classified as current when:

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

All other assets are classified as non-current.

A liability is classified as current if:
- it is expected to be settled within the normal operating cycle
- it is expected to be realized within 12 months of the end of the reporting period or
- the company does not have an unconditional right to defer settlement of the liability for at least 12 months after the reporting period.

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

Assets Held for Sale

Non-current assets are classified as held for sale and therefore presented separately within the balance sheet if their carrying amount will be recovered principally through a sale transaction rather than through continuing use. This is the case, if:
- the asset is available for sale and
- the sale is highly probable.

Non-current assets classified as held for sale are measured at the lower of their carrying amount or their fair value less costs to sell. Such assets are not depreciated or amortized.

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 whether the arrangement conveys a right to use the asset or assets, even if that right is not explicitly specified in an arrangement.

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

Assets leased under operating leases are not recognized. Instead, the lease payments are expensed on a straight-line basis over the term of the lease. Significant operating leases pertain to leases of office space 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 corresponding 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, either based on goods market prices or moving average prices. 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 discharged, cancelled 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
- plus or minus the cumulative amortization using the effective interest method of any difference between that initial amount and the maturity amount and
- adjusted for loss allowance for financial assets.

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

Financial Assets

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

- at amortized cost,
- fair value through other comprehensive income, or
- fair value through profit or loss.

When financial assets are recognized initially, they are measured at fair value, except for trade receivables, which Zalando measures at their transaction price at initial recognition. 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 differing measurement rules for each category.

Financial assets measured at amortized cost are those which are held in a business model whose objective is to hold the financial asset in order to collect contractual cash flows and for which the contractual terms give rise on specific dates to cash flows that are solely payments of principal and interest on the principal amount outstanding. This measurement category is used for trade receivables, other financial assets and cash and short-term deposits.

The category of financial assets at fair value through other comprehensive income relates to financial assets that are held within a business model whose objective is achieved by both, collecting contractual cash flows and selling financial assets. The contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding. The fluctuations in value recognized in other comprehensive income are transferred to profit or loss for the period at the time the assets is derecognized. Impairment and foreign exchange gains or losses are nevertheless recognized in profit or loss.

All financial assets other than those described above are measured at fair value through profit or loss. Hence they are held within a business model whose objective is not to hold the financial asset to collect contractual cash flows, and their cash flows are not solely payments of principal and interest on the principal amount outstanding. Derivative financial instruments that are not effective hedging instruments are allocated to this category as well as corporate investments. Changes in fair value for financial assets are recognized through profit or loss.

Impairment of Financial Assets

Zalando recognizes a loss allowance for expected credit losses for all financial assets other than measured at fair value through profit or loss. At each reporting date, the loss allowance is measured at an amount equal to 12-month expected credit losses. In the case the credit risk has increased significantly the loss allowance is measured at an amount equal to the lifetime expected credit losses. The same applies to financial assets that were purchased credit impaired.

For trade receivables Zalando applies the simplified approach of IFRS 9 to measure the loss allowance at an amount equal to the lifetime expected credit losses. For that, Zalando uses a scenario-based approach and takes into account 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 following two 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 designated upon initial recognition as 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 or losses from changes in the fair value of derivative financial instruments are recognized depends on whether the requirements of IFRS 9 are met with regard to hedge accounting. Zalando uses derivative financial instruments exclusively to hedge against risks.

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

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

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: other inputs than quoted prices which are observable, either directly or indirectly, and which have a significant effect on the measurement of the asset or liability
- 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 of IAS 37 when the group has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation.

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

Restoration Obligations

The group recognizes provisions for restoration expenses for leasehold improvements in the leased fulfillment centers 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. Unwinding of the discount is expensed as incurred and recognized as an interest expense in the statement of comprehensive income.

Share-Based Payments

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 as expenses at the fair value of the granted options. 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 granted is measured at the grant date and not adjusted subsequently.

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 non-vesting conditions affect the fair value of the payment on the grant date only.

When the terms of an equity-settled transaction are modified, the minimum expense recognized is the expense that would have been incurred if the original terms of the arrangement had been fulfilled.

Zalando also recognizes increases in the fair value of the equity instruments granted due to modifications.

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

Revenue Recognition

Revenue is recognized in accordance with the provisions of IFRS 15 when the goods or services promised are transferred to the customer, i.e. Zalando satisfies the performance obligation, provided that the collection of the consideration will be probable. Revenue is measured at the amount of the consideration Zalando expects to receive as exchange for transferring the promised goods and services. Within wholesale, revenue is recognized in full, whereby in the Partner Program, revenue is recognized in the amount of the commission Zalando expects to receive from partner. Revenue is recorded net of sales deductions, taxes and duties.

Zalando identifies its performance obligations as the distinct goods or services promised in a contract with a customer. Apart from the express delivery option, the goods or services promised by Zalando (goods, free delivery and returns with a return policy of up to 100 days, free customer care) create a bundle that is distinct, i.e. the identified performance obligation.

When selling merchandise to customers, Zalando transfers control over the promised goods and services at a point in time. This is generally the case when the goods are delivered.

In assessing the consideration expected to be received, Zalando takes into account the right of return granted to the customers. 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 when 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 that 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.

3.5.6 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 recognized in the financial statements and the related disclosures. Although these estimates, to the best of management's knowledge, are based on the current events and circumstances, 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 3.5.7 (15.) and 3.5.7 (16.),
- setting the expected rate of returns; see comments under note 3.5.7 (23.),
- the determination of the fair value of obligations from financial liabilities and share-based payments; see comments under 3.5.7 (20.) as well as note 3.5.8 (1.),
- the determination of the recoverability of deferred tax assets on unused tax losses; see comments under notes 3.5.7 (8.) and 3.5.7 (26.),
- impairment test for goodwill and intangible assets under development; see comments under note 3.5.7 (11.),
- identification and determination of anticipated effects from the application of new or amended IFRS not yet applied; see comments under note 3.5.3.

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.

3.5.7 Notes to the Consolidated Statement of Comprehensive Income and Statement of Financial Position

Further Information Consolidated Statement of Comprehensive Income p. 129

(1.) Revenue

Revenue → 86

IN EUR M	Jan 1 – Dec 31, 2018	Jan 1 – Dec 31, 2017
Revenue from the sale of merchandise	5,206.5	4,358.9
Revenue from other services	181.4	130.1
Total	**5,387.9**	**4,489.0**

Zalando was able to significantly increase its revenue in all market segments.

The 20% rise in revenue is mainly attributable to a larger customer base and an increase in number of orders. As of December 31, 2018, the group had 26.4 million active customers. This corresponds to an increase of 14.4% compared to the prior year. The larger customer base ordered more frequently compared to the prior year with the average number of orders per active customer rising by 12.3%. The higher number of customer orders, which increased by 28.4%, was driven in particular by a 22.4% increase in site visits. The higher traffic also relates to a significant increase in the share of visitors who access our shops on mobile devices. Compared to the prior year, the share of site visits via mobile devices rose by 8.7 percentage points to 79.3% in 2018.

The considerable rise in these revenue drivers was enabled by continued focus on investing in the consumer and brand propositions as well as in our technology and operations infrastructure.

External revenue in the Fashion Store and the Offprice segments almost exclusively stems from the sale of merchandise in 2018 as well as in the prior year.

All other segments mostly record revenue from the sale of merchandise in 2018 as well as in the prior year.

(2.) Cost of Sales

Cost of Sales → 87

IN EUR M	Jan 1 – Dec 31, 2018	Jan 1 – Dec 31, 2017
Non-personnel costs	2,980.4	2,444.8
Personnel costs	126.6	84.8
Total	**3,107.0**	**2,529.6**

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

Cost of sales rose by 22.8% year-on-year from EUR 2,529.6m to EUR 3,107.0m, with the gross margin decreasing slightly by 1.3 percentage points from 43.6% to 42.3%, mostly due to a higher average discount rate. Furthermore, in Q3 2018 we recorded higher expense for defective returns caused by less effective returns handling. This matter was investigated and resolved already during Q3 2018.

The cost of materials in the group totals EUR 2,734.9m (prior year: EUR 2,250.9m).

Zalando generated a gross profit of EUR 2,280.9m in fiscal year 2018 (prior year: EUR 1,959.4m).

(3.) Selling and Distribution Costs

Selling and Distribution Costs → 88

IN EUR M	Jan 1 – Dec 31, 2018	Jan 1 – Dec 31, 2017
Non-personnel costs	1,501.7	1,212.4
Personnel costs	397.5	318.4
Total	**1,899.2**	**1,530.8**

In 2018, selling and distribution costs rose by EUR 368.4m to EUR 1,899.2m and pertain to fulfillment costs of EUR 1,501.5m (prior year: EUR 1,168.2m) and marketing costs of EUR 397.7m (prior year: EUR 362.5m). The fulfillment cost ratio as a percentage of revenue increased by 1.8 percentage points from 26.0% in 2017 to 27.9% in 2018. The increase in the fulfillment cost ratio is primarily attributable to higher logistic costs as Zalando is building up a diverse logistic network and continues its investments in the customer and brand propositions. Examples include the ramp-up of new fulfillment centers in southern Germany, Italy, Sweden and Poland, and investments in convenience such as same day delivery to enhance our customer experience. Logistic costs were also impacted by higher transport costs, driven by increased carrier prices.

(4.) Administrative Expenses

Administrative Expenses → 89

IN EUR M	Jan 1 – Dec 31, 2018	Jan 1 – Dec 31, 2017
Non-personnel costs	103.7	80.1
Personnel costs	165.2	162.8
Total	**268.9**	**242.9**

The non-personnel expenses primarily contain office expenses, depreciation and legal and advisory expenses. The increase in non-personnel expenses mainly results from the higher office costs.

(5.) Other Operating Income

Other operating income increased by EUR 6.9m from EUR 11.8m in 2017 to EUR 18.7m in 2018.

Zalando here recognized 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 section 3.5.7 (17.)) and income from the sale of a fulfillment center set up in Szczecin (Gryfino), Poland (see section 3.5.7 (12.)).

(6.) Other Operating Expenses

Other operating expenses of EUR 12.3m (prior year: EUR 9.9m) mainly stem from expenses relating to other periods.

(7.) Financial Result

Financial Result

→ 90

IN EUR M	Jan 1 – Dec 31, 2018	Jan 1 – Dec 31, 2017
Interest and similar income	5.7	3.9
thereof from hedging derivatives	5.8	4.3
thereof from trade and other receivables	0.4	0.2
thereof from other financial instruments	–0.5	–2.2
thereof from unwinding the discount on non-current assets	0.0	1.6
Interest and similar expenses	–15.4	–14.5
thereof from financial liabilities at amortized cost	–8.0	–7.5
thereof from hedging derivatives	–5.1	–4.1
thereof other interest and similar expenses	–2.6	–2.6
thereof from unwinding the discount on non-current provisions	0.3	–0.2
Result of investments accounted for using the equity method	–3.5	0.3
Other financial result	–0.4	–2.2
thereof from hedging transactions	–0.1	1.7
thereof from ineffective hedging transactions	0.1	–1.6
thereof from currency effects	–0.4	–2.2
Financial result	**–13.6**	**–12.4**

As a result of the higher reverse factoring volume, interest expenses from financial liabilities at amortized cost increased. Further, interest expense and interest income from hedging derivatives rose in the reporting year due to the higher hedging volume.

(8.) Income Taxes

Income taxes include deferred taxes and current income taxes paid or payable in the respective countries. They comprise trade tax, corporate income tax, solidarity surcharge and the equivalent foreign tax charges. As in the prior year, the statutory corporate income tax rate, including solidarity surcharge, for the 2018 assessment period in Germany was 15.8%. The applicable trade tax rate was also unchanged in comparison to the prior year at 14.7%. This results in an expected tax rate for the group of 30.5% (prior year: 30.5%).

Current and deferred taxes are presented in the following table.

Income Taxes

→ 91

IN EUR M	Jan 1 – Dec 31, 2018	Jan 1 – Dec 31, 2017
Deferred taxes	7.3	–27.0
Current taxes	–61.7	–46.6
Total	**–54.4**	**–73.6**

As of the reporting date, the Zalando group maintains unused corporate income tax losses of EUR 105.4m (prior year: EUR 60.8m) and unused trade tax losses of EUR 35.2m (prior year: EUR 25.0m). As in the prior year, loss carry forwards are mainly attributable to foreign subsidiaries and can be carried forward indefinitely. 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 affect the tax result totaling EUR 0.4m in the reporting year (prior year: EUR 0.0m).

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

Tax Rate Reconciliation

→ 92

IN EUR M	Jan 1 – Dec 31, 2018	Jan 1 – Dec 31, 2017
Earnings before taxes	105.6	175.2
Income tax rate for the group	30.5%	30.5%
Expected tax expense (–) / tax income (+)	–32.2	–53.4
Share of taxes for:		
Non-deductible expenses	–11.3	–8.8
Recognition of previously unrecognized unused tax losses	1.3	–0.2
Unrecognized unused tax losses	–10.1	–7.8
Entities included using the equity method	–1.1	0.1
Tax expenses (–) / tax income (+) relating to other periods	2.2	–0.2
Tax rate differences	–3.0	–3.2
thereof share of subsidiaries with higher tax rates	0.2	0.1
thereof share of subsidiaries with lower tax rates	–3.2	–3.3
Other	–0.3	0.0
Income tax expense according to the consolidated statement of comprehensive income	**–54.4**	**–73.6**
Effective tax rate	*51.5%*	*42.0%*

(9.) Earnings per Share

The basic earnings per share are determined by dividing the net income for the period attributable to the shareholders of ZALANDO SE by the basic weighted average number of shares.

The basic earnings per share decreased in comparison to the prior year due to lower net income for the period.

Basic Earnings per Share (EPS)

→ 93

	Jan 1 – Dec 31, 2018	Jan 1 – Dec 31, 2017
Net income for the period attributable to the shareholders of ZALANDO SE (in EUR m)	51.4	103.1
Basic weighted average number of shares (in millions)	247.3	247.3
Total (in EUR)	**0.21**	**0.42**

The diluted earnings per share are determined by dividing the net income for the period attributable to the shareholders by the diluted weighted average number of shares.

Diluted Earnings per Share (EPS)

→ 94

	Jan 1 – Dec 31, 2018	Jan 1 – Dec 31, 2017
Net income for the period attributable to the shareholders of ZALANDO SE (in EUR m)	51.4	103.1
Weighted average number of diluted shares (in millions)	258.1	259.5
Total (in EUR)	**0.20**	**0.40**

The dilutive effect stems solely from equity-settled share based payment awards granted to employees. All employee options were taken into account in the calculation of the diluted earnings per share, except for those equity-settled share-based payments, which include performance conditions that had not yet been met as of the reporting date or were out of the money. As a result, the options granted within the scope of LTI 2018, VSOP 2018 and EIP in fiscal year 2018 (prior year: options granted within the scope of VSOP 2017 and EIP granted in fiscal year 2017) were not taken into account in the calculation of diluted earnings.

(10.) Personnel Expenses

Personnel Expenses

→ 95

IN EUR M	Jan 1 – Dec 31, 2018	Jan 1 – Dec 31, 2017
Wages and salaries	636.4	523.4
Social security, pensions and other benefit costs	107.8	91.2
thereof pension costs	0.4	0.2
Total	**744.3**	**614.6**

The average number of salaried employees in the group was 15,526 in fiscal year 2018 (prior year: 13,940). Contributions to the statutory pension insurance scheme rose by EUR 6.8m to EUR 48.0m (prior year: EUR 41.2m).

(11.) Intangible Assets

Intangible assets developed as follows:

Statement of Movements of Intangible Assets 2018

→ 96

IN EUR M	Capitalized development costs	Industrial rights, similar rights and assets as well as licenses	Goodwill	Prepayments and assets under development	Total
Historical costs					
As of Jan 1, 2018	**110.6**	**62.0**	**50.4**	**58.8**	**281.8**
Additions	26.5	2.4	0.0	28.4	57.3
thereof from business combinations	0.0	0.0	0.0	0.0	0.0
Disposals	–4.3	–7.3	–1.0	–6.2	–18.8
Reclassifications	38.5	0.6	0.0	–39.4	–0.3
Currency translation differences	–0.1	0.0	0.0	0.0	–0.1
As of Dec 31, 2018	**171.2**	**57.7**	**49.4**	**41.6**	**319.9**
Amortization					
As of Jan 1, 2018	**68.0**	**31.5**	**0.0**	**0.0**	**99.5**
Additions	32.6	7.0	0.0	0.4	40.0
Disposals	–4.3	–4.0	0.0	–0.4	–8.6
As of Dec 31, 2018	**96.3**	**34.5**	**0.0**	**0.0**	**130.9**
Carrying amounts					
As of Dec 31, 2017	**42.6**	**30.5**	**50.4**	**58.8**	**182.3**
As of Dec 31, 2018	**74.9**	**23.2**	**49.4**	**41.6**	**189.1**

Statement of Movements of Intangible Assets 2017

→ 97

IN EUR M	Capitalized develop-ment costs	Industrial rights, similar rights and assets as well as license	Goodwill	Prepayments and assets under development	Total
Historical cost					
As of Jan 1, 2017	**79.1**	**42.1**	**13.9**	**38.4**	**173.5**
Additions	14.4	20.9	36.6	36.8	108.7
thereof from business combinations	0.0	17.3	36.6	0.0	53.9
Disposals	0.0	0.1	0.1	0.0	0.2
Reclassifications	17.1	–0.9	0.0	–16.4	–0.2
Currency translation differences	0.0	0.0	0.0	0.0	0.0
As of Dec 31, 2017	**110.6**	**62.0**	**50.4**	**58.8**	**281.8**
Amortization					
As of Jan 1, 2017	**48.0**	**24.6**	**0.0**	**0.0**	**72.6**
Additions	20.0	6.9	0.0	0.0	26.9
Disposals	0.0	0.0	0.0	0.0	0.0
As of Dec 31, 2017	**68.0**	**31.5**	**0.0**	**0.0**	**99.5**
Carrying amounts					
As of Dec 31, 2016	**31.1**	**17.5**	**13.9**	**38.4**	**100.9**
As of Dec 31, 2017	**42.6**	**30.5**	**50.4**	**58.8**	**182.3**

Additions mainly relate to capitalized development costs of EUR 54.9m (prior year: EUR 51.2m), of which EUR 28.4m is contained in prepayments and assets under development (prior year: EUR 36.8m). These mainly concern production costs for internally developed software.

Research costs were recognized directly through profit or loss.

Apart from goodwill (see below), brand names and domain rights of EUR 4.7m (prior year: EUR 4.7m) 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 40.0m was recorded in the reporting period (prior year: EUR 26.9m). Of this amount, EUR 5.2m (prior year: EUR 4.4m) is recognized in cost of sales, EUR 29.0m (prior year: EUR 18.5m) in selling and distribution costs, and EUR 5.8m (prior year: EUR 4.1m) in administrative expenses.

Impairment Test for Goodwill

Zalando recognized goodwill totaling EUR 49.4m as of December 31, 2018. As this amount is not deemed to be material for the group, we only provide the following information about it.

The goodwill is allocated to three units (Fashion Store, Anatwine and Tradebyte), being either individual cash-generating units or a group of cash-generating units.

The annual impairment testing was carried out in the fourth quarter of the reporting year at the level of such cash-generating units. Recoverable amounts were calculated using the value-in-use concept. At Zalando, the value in use is calculated based on reconciled planned financial statements, which have been approved by the Management Board. Thereafter, an additional period is added to reflect the strong growth of the Zalando businesses combined with the transition to a steady state situation. Beyond that, a terminal value is added as a perpetual annuity. The underlying planned financial statements reflect current performance and management's best estimates on the future development of individual parameters, such as market prices and profit margins. Market assumptions, such as economic development and market growth, are included based on external macroeconomic sources as well as sources specific to the business.

Zalando calculated the discount rate before taxes using the capital asset pricing model. Consequently, a risk-free rate, a market risk premium and a spread for credit risk based on the respective business-specific peer group were determined. In addition, the calculations include capital structure and the beta factor of the respective peer group as well as the average tax rate of each cash-generating unit. The resulting discount rates before taxes lie in the range of 10.8% to 12.3%.

The annual impairment testing did not uncover any goodwill impairment losses. In addition to testing for impairment, it was tested whether possible changes in the key assumptions could reasonably lead to the carrying amount of the units exceeding their respective recoverable amounts. Such a situation did not exist as of December 31, 2018.

(12.) Property, Plant and Equipment

Property, plant and equipment were as follows:

Statement of Movements of Property, Plant and Equipment 2018 → 98

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, 2018	**213.5**	**105.8**	**1.3**	**116.1**	**436.7**
Additions	78.2	26.8	1.1	138.2	244.3
thereof from business combinations	0.0	0.0	0.0	0.0	0.0
Disposals	–0.3	–2,8	0.0	0.0	–3.1
Reclassifications	96.8	2.9	0.3	–99.8	0.2
Reclassified to held for sale	0.0	0.0	0.0	0.0	0.0
Currency translation differences	–0.3	0.0	0.0	–1.4	–1.7
As of Dec 31, 2018	**387.9**	**132.7**	**2.7**	**153.1**	**676.4**
Depreciation					
As of Jan 1, 2018	**39.0**	**46.8**	**0.4**	**0.0**	**86.2**
Additions	25.1	21.2	0.2	0.0	46.5
Disposals	–0.1	–2.6	0.0	0.0	–2.7
Reclassifications	0.0	0.0	0.0	0.0	0.0
As of Dec 31, 2018	**64.0**	**65.4**	**0.6**	**0.0**	**130.0**
Carrying amounts					
As of Dec 31, 2017	**174.5**	**59.0**	**0.9**	**116.1**	**350.5**
As of Dec 31, 2018	**323.9**	**67.3**	**2.1**	**153.1**	**546.4**

Statement of Movements of Property, Plant and Equipment 2017

→ 99

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, 2017	**137.4**	**75.8**	**4.5**	**84.3**	**302.0**
Additions	35.6	31.9	35.9	86.3	189.7
thereof from business combinations	0.0	1.2	0.0	0.0	1.3
Disposals	–0.1	–3.8	0.0	–0.5	–4.4
Reclassifications	40.6	1.9	0.2	–42.5	0.2
Reclassified to held for sale	0.0	0.0	–39.5	–12.5	–52.0
Currency translation differences	0.0	0.0	0.2	1.0	1.2
As of Dec 31, 2017	**213.5**	**105.8**	**1.3**	**116.1**	**436.7**
Depreciation					
As of Jan 1, 2017	**25.2**	**33.5**	**0.3**	**0.0**	**59.0**
Additions	13.9	17.3	0.6	0.0	31.8
Disposals	–0.1	–4.0	0.0	0.0	–4.1
Reclassifications to held for sale	0.0	0.0	–0.5	0.0	–0.5
As of Dec 31, 2017	**39.0**	**46.8**	**0.4**	**0.0**	**86.2**
Carrying amounts					
As of Dec 31, 2016	**112.2**	**42.3**	**4.2**	**84.3**	**243.0**
As of Dec 31, 2017	**174.5**	**59.0**	**0.9**	**116.1**	**350.5**

The additions mainly pertain to investments in expanding the fulfillment centers in Verona (Nogarole Rocca), Lodz (Gluchow), Szczecin (Gryfino) and Lahr.

The assets held for sale contained the fulfillment center in Szczecin (Gryfino), Poland, consisting of the land and building as of December 31, 2017. The fulfillment center was sold as of June 29, 2018. The gain on sale is recognized in other operating income. The fulfillment center is leased back by Zalando. The rental arrangement qualifies as an operating lease in accordance with IAS 17.

Depreciation of property, plant and equipment totaled EUR 46.5m (prior year: EUR 31.8m). Of this total, an amount of EUR 4.9m (prior year: EUR 4.1m) is recognized in cost of sales, EUR 30.7m (prior year: EUR 21.2m) in selling and distribution costs and EUR 10.9m (prior year: EUR 6.4m) in administrative expenses.

(13.) Non-Current Financial Assets and Non-Current Non-Financial Assets

As of the reporting date, non-current financial and non-financial assets comprise the following components:

Non-Current Financial and Non-Financial Assets

→ 100

IN EUR M	Dec 31, 2018	Dec 31, 2017	Change
Other non-current financial assets	**13.7**	**25.9**	**–12.2**
thereof derivative financial instruments	0.5	17.2	–16.7
thereof restricted cash	2.5	2.5	0.0
thereof other financial instruments	10.7	6.2	4.5
Other non-current non-financial assets	**3.8**	**3.5**	**0.2**
thereof deferred items	3.8	3.5	0.2

The decrease of other non-current financial assets mainly results from the derivative financial instruments. In 2017, the long-term fair value of a derivative resulting from the interest in the proceeds from the sale of developed land owned by third parties amounted to EUR 15.4m. Henceforth, the financial asset is recognized as other current financial asset (see section 3.5.7 (17.)).

(14.) Investments Accounted for Using the Equity Method

As of the reporting date, investments accounted for using the equity method comprise the following entities:

Investments Accounted for Using the Equity Method

→ 101

IN EUR M	Dec 31, 2018	Dec 31, 2017	Change
FashionTrade.com B.V.	1.7	4.1	–2.4
Le New Black SAS	3.3	1.8	1.5
Total	**5.0**	**5.9**	**–0.9**

The development of the total carrying amount in 2018 is mainly influenced by Zalando's share of those associates' operating losses (EUR 3.5m) partly offset by capital increases.

(15.) Inventories and Prepayments

Inventories of merchandise, mainly consisting of shoes and textiles, are recognized in an amount of EUR 819.5m (prior year: EUR 778.9m). The EUR 40.6m increase in inventories resulted from the increased business volume.

Allowances of EUR 110.1m were recognized on inventories and the right to repossess goods associated with expected returns (prior year: EUR 98.9m). Expenses for allowances recorded on inventories was EUR 164.2m in the reporting year (prior year: EUR 127.6m).

(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

→ 102

IN EUR M	Dec 31, 2018	Dec 31, 2017
Accumulated bad debt allowances as of Jan 1	**65.4**	**71.7**
Additions to portfolio-based specific bad debt allowance	51.4	38.0
Utilizations	–14.0	–34.4
Reversals	–4.3	–9.0
Exchange rate effects and other changes	0.5	–1.0
Accumulated bad debt allowances as of Dec 31	**99.0**	**65.4**

Additions to bad debt allowances totaled EUR 51.4m in the reporting year (prior year: EUR 38.0m). Of the bad debt allowances recognized as of December 31 of the prior year, EUR 14.0m was utilized (prior year: EUR 34.4m) and EUR 4.3m reversed (prior year: EUR 9.0m). Bad debt losses for uncollectible receivables amounted to EUR 16.8m in the fiscal year (prior year: EUR 43.9m).

Bad debt allowances are in line with prior year's allowances. Zalando continues to optimize and improves its steering of payment options and works with solvency score providers for better monitoring of fraudulent activities, resulting in low level of bad debt allowances.

Additions to bad debt allowances are reported under selling and distribution costs. Receivables do not bear interest and are therefore not subject to interest rate risk.

(17.) Other Current Financial Assets and Other Current Non-Financial Assets

As of the reporting date, other current financial and non-financial assets comprise the following components:

Other Current Financial Assets and Other Current Non-Financial Assets

→ 103

IN EUR M	Dec 31, 2018	Dec 31, 2017	Change
Other current financial assets	**59.3**	**80.7**	**–21.5**
thereof term deposits	20.0	40.0	–20.0
thereof derivative financial instruments	7.7	20.7	–12.9
thereof creditors with debit balance	6.8	14.5	–7.7
thereof other financial instruments	24.7	5.6	19.2
Other current non-financial assets	**191.4**	**152.7**	**38.6**
thereof VAT receivables	75.7	67.4	8.3
thereof right to repossess goods	85.2	62.5	22.7
thereof deferred items	8.4	13.0	–4.6
thereof other financial assets	22.0	9.7	12.3

Zalando decreased investments in term deposits because the interest conditions for term deposits are currently not favorable. The other financial instruments include a claim resulting from the interest in the proceeds from the sale of developed land owned by third parties (EUR 21.8m). This claim was fully settled in the first quarter of 2019.

(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. The loss allowance recognized at the date of transition to IFRS 9 (EUR 0.8m; see section 3.5.3) was not subject to any material change in the fiscal year.

Cash and Cash Equivalents

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IN EUR M	Dec 31, 2018	Dec 31, 2017
Money market funds	430.4	475.5
Cash in bank	504.1	529.8
Short-term bank deposits	60.0	60.0
Cash on hand	0.5	0.2
Total	**995.0**	**1,065.5**

(19.) Equity

The parent company issued 250,665,959 ordinary bearer no-par value shares (Stückaktien auf den Inhaber) as of the reporting date (prior year: 247,384,898). 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 fiscal year 2018, the issued capital of the parent company was increased by a total of EUR 3.3m to EUR 250.7m by making partial use of authorized capital 2013 and conditional capital 2013 and 2014. The capital contribution for the newly issued shares has been fully paid in.

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

Authorized and Conditional Capital

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	Amount in EUR m	Number of no-par value shares	Purpose
Authorized capital 2013	0.0	0	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	9.6	9,617,500	Servicing of subscription rights from SOP 2013
Conditional capital 2014	4.8	4,750,499	Servicing of subscription rights from SOP 2014
Conditional capital 2015	73.9	73,889,248	Issue of 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 the authorized capital 2015 requires the approval of the Supervisory Board. Authorized capital 2013 stands at EUR 0m per year-end as the authorization period expired on October 28, 2018.

The capital reserve amounts to EUR 1,155.6m (prior year: EUR 1,182.4m). In the reporting year, contributions were made under the share-based payment plans in accordance with IFRS 2 of EUR 43.3m (prior year: EUR 27.5m).

Other reserves include effects from cash flow hedging of EUR –7.2m (prior year: EUR 10.9m) and deferred taxes on the resulting measurement differences of EUR 2.2m (prior year: EUR –3.3m). Due to cash flow hedging in the reporting year, income of EUR 13.1m (prior year: EUR 15.3m) was recycled from other reserves to revenue, and EUR 0.1m were reclassified from other reserves to inventories according to IFRS 9 (prior year: expense of EUR 4.2m were recycled to cost of sales). Moreover, expenses of EUR 0.1m (prior year: EUR 0.1m) from interest rate hedging were recycled to the financial result in the reporting year.

In 2018, ZALANDO SE repurchased 2,663,836 treasury shares (prior year: 160,773) at an average price of EUR 41.62 (prior year: EUR 41.92), which corresponds to a notional share in share capital of EUR 2,663,836 (prior year: 160,773) and thus 1.06% (prior year 0.06%) of share capital. Total repurchased shares per December 31, 2018, amount to a notional share in share capital of EUR 2,788,824 (prior year: 230,773) and thus to 1.11% (prior year: 0.09%) of share capital.

The retained earnings result from the profit and loss carry forwards of past reporting periods and the profit of the current reporting period.

In 2018, ZALANDO SE purchased additional shares in Anatwine Ltd. after first-time full-consolidation in 2017. The difference of EUR –0.4m (prior year: EUR –4.9m) between acquisition costs and proportional equity acquired was recognized in retained earnings.

A non-controlling interest arose from the acquisition and first-time full consolidation of Anatwine Ltd. in 2017. Minority shareholders hold 1.5% (prior year: 2.5%) of the Anatwine shares per December 31, 2018; the non-controlling interest amounted to EUR –0.1m (prior year: EUR –0.1m).

The development of equity is shown in the statement of changes in equity.

(20.) Share-Based Payments

As of the reporting date, Zalando has various share-based payment awards in place for which expenses amounting to EUR 43.3m (prior year: EUR 27.5m) have been recognized. Of these expenses, an amount of EUR 43.3m (prior year: EUR 27.5m) relates to equity-settled share-based awards and EUR 0.1m (prior year: EUR 0.0m) to cash-settled share-based payment awards. The awards material to our consolidated financial statements are described in detail below. All these awards are equity-settled plans granted to employees and executives.

Description of the Programs

Management Board Programs

LTI 2018

Each member of the Management Board was granted 1,750,000 options under the LTI 2018 which forms part of the new remuneration system effective since December 1, 2018. Each option relates to one share in the company and has an exercise price of EUR 47.44. The options vest in quarterly tranches over a five-year period. The options can only be exercised after the expiry of a waiting period of 4 years commencing on the effective date December 1, 2018, for 57% of the options and 4.75 years for the remaining 43% of the options. The performance period relevant for the achievement of the performance criterion equals the waiting period (i.e. 4 and 4.75 years) for the respective options. The percentage of vested options of a beneficiary which can be exercised depends on the extent to which a targeted compound annual growth rate (CAGR) of at least 15% has been achieved during the performance period. 100% of the vested options can be exercised if the CAGR equals or exceeds 15%. Otherwise, depending on the extent of the shortfall of the actual CAGR from such target CAGR, the percentage of the relevant vested options which can be exercised decreases by way of a step function with each 0.5ppt of CAGR below 15% resulting in a 10% payout reduction, the last step being (< 11.0% and ≥ 10.0%); at a CAGR below 10%, payout is zero. The beneficiary is entitled to the amount by which the share price as per the exercise date exceeds the exercise price of EUR 47.44. This amount is limited to a maximum of EUR 97.14 per option.

SOP 2011 and SOP 2013

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

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

The options of SOP 2013 were granted to the members of the Management Board in fiscal year 2013. SOP 2013 consists of options that entitle each member of the Management Board to acquire 3,272,500 new shares in the company. Each option entitles the beneficiaries to acquire one share. The exercise price is EUR 15.63 per option. The beneficiaries can alternatively request a reduction of the exercise price from EUR 15.63 to EUR 1.00 for all or some of the options already vested. In this case, the number of options is reduced so that it leaves the beneficiary at the time of the request neither better nor worse off economically. The options granted to the beneficiaries vested in monthly tranches over a five-year period. The last tranche of SOP 2013 vested in November 2018. The exercise of the options require the expiry of a four-year waiting period and the achievement of the performance criterion which was determined in a compound annual revenue growth rate during the four-year waiting period. The waiting period ended in December 2017 and the performance criterion was achieved at the end of this period. The options can only be exercised in defined exercise windows, namely within three weeks of the publication of a quarterly financial report, a half-year report or the annual financial statements, and within five years of the expiration of the waiting period.

Management Programs

SOP 2014

SOP 2014 entitles senior members of the Management Team as well as selected key employees to subscribe to a total of 6,732,000 shares in ZALANDO SE. The options vest provided that the recipient has worked for the company for the period specified within a tranche. Vested options can only be exercised if 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 recipient to acquire one share. The options vest in 16 tranches over a period of four years. The performance condition stipulates that Zalando must achieve a certain level of 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 four-year waiting period commences on the grant date. The recipients can exercise vested options after the waiting period 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 recipients have no claim to cash payment.

VSOP 2017

VSOP 2017 entitles selected senior members of the Management Team to subscribe to virtual stock options in ZALANDO SE. The virtual stock options were issued at an exercise price of EUR 25.00 (Type A options) or at EUR 50.00 (Type B options). In fiscal year 2017, a total of 270,000 A options and 600,000 B options were issued. For each option that is exercised, the holder receives a cash settlement of an amount equal to the closing price of the share of the company listed on the Frankfurt Stock Exchange on the date on which notification is received that the option is being exercised less the exercise price. The company has the right to fulfill the cash settlement obligations towards the holder of the option by delivering shares instead. The management of Zalando aims to settle the program in equity. The options vest provided that the recipient has worked for the company for the period specified within a tranche. Vested options can only be exercised if the performance target defined in VSOP 2017 has been fulfilled and the waiting period has elapsed. The options vest in 12 tranches over a period of three years. The performance target stipulates that Zalando must achieve a certain level of revenue growth over a period of three years, starting on the grant date. If the contractual revenue target is not achieved, the options are forfeited without replacement. The three-year waiting period commences on the grant date. At the end of the waiting period, the holders of exercisable options can exercise them at any time over the following two years, except during black-out-periods.

VSOP 2018

VSOP 2018 was granted to selected senior members of the Management Team in 2018. In total 750,000 virtual stock options were granted. The virtual stock options break down into 500,000 ITM (in the money) virtual stock options, which have an exercise price of EUR 29.84 and 250,000 OTM (out of the money) virtual stock options which have an exercise price of EUR 57.38. For each option that is exercised, the holder receives a cash settlement of an amount equal to the closing price of the share of the company listed on the Frankfurt Stock Exchange on the date on which notification is received that the option is being exercised less the exercise price. The company has the right to fulfill its cash settlement obligations towards the holder of the option by delivering shares instead. The management of Zalando aims to settle the program in equity. The options vest provided that the recipient has worked for the company for the period specified within a tranche. Vested options can only be exercised if the performance target defined in VSOP 2018 has been fulfilled and the waiting periods have elapsed. The options vest in 20 tranches over a period of five years. The performance target stipulates that Zalando must achieve a certain level of growth during the waiting periods, starting on the grant date. If the contractual performance target is not achieved, the options are forfeited without replacement. The waiting periods are two to five years commencing on the grant date. At the end of the respective waiting period, the holder of exercisable options can exercise them at any time over the following two to three years, except during certain blackout-periods.

EIP

The EIP is a yearly equity award granted to managing directors, managerial staff members and selected key employees of the group. The EIP awards are granted in July (as a full annual grant) and in January (as a pro rata annual grant) of each year. The first EIP award was granted in July 2016. The options issued under EIP entitle the participants to receive an annual mix (portfolio) of performance shares and performance options depending on the total amount in euros granted to each participant (the annual grant). The participant can decide how to split the annual grant between performance shares and performance options and regarding the performance options, whether they will be granted as ATM (at the money) performance options or OTM (out of the money) performance options. The swap ratio is based on the fair value measurement of the performance shares and options. Performance shares have an exercise price of EUR 1.00, ATM performance options have an exercise price equal to the volume-weighted average Stock Exchange Price on the last 60 trading days prior to the Grant Date (base price), and the OTM performance options have an exercise price of 120% of the base price. The portfolios vest provided that the recipient has worked for the company for the period specified within a tranche. Vested portfolios can only be exercised if the performance target defined in EIP has been fulfilled and the waiting period has elapsed. The performance condition stipulates that Zalando must achieve a certain level of growth over a period of four years, starting on the grant date. If the contractual performance target is not achieved, the portfolio is forfeited without replacement. The four-year waiting period commences on the grant date. The recipients can exercise vested portfolios after the waiting period over a period of four years, except during blackout-periods. The management of Zalando aims to settle the EIP in equity.

Other Programs

Zalando has entitled all employees to subscribe to the Share Invest and Share Bonus program. Furthermore, Zalando has implemented a company-wide Top Performance Options Plan.

Share Invest

The yearly Share Invest program is designed as a self-financed acquisition of shares by the participants (investment shares) with a subsequent issue of matching shares by the company. Following a one-year acquisition period and a two-year waiting 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.

Share Bonus

The yearly Share Bonus program gives all participants the opportunity to receive a certain number of free shares. There is a lock-up period of one year attached to the bonus shares commencing on the grant date.

Top Performance Options Plan

The purpose of the yearly Top Performance Options Plan is to reward employees who have delivered excellent performance during the performance year. One top performance option entitles the participant to receive one share. After a lock-up period of one year after grant date, the options can be exercised during a period of one year except during blackout-periods.

Development of Outstanding Options

	SOP 2011		SOP 2013		SOP 2014	
	Number	Weighted average exercise price (in EUR)	Number	Weighted average exercise price (in EUR)	Number	Weighted average exercise price (in EUR)
Outstanding as of Jan 1, 2017	**2,543,200**	**5.65**	**9,817,500**	**15.63**	**6,595,520**	**19.65**
Granted during the year	0	–	0	–	0	–
Forfeited during the year	0	–	0	–	298,608	21.22
Exercised during the year	691,900	5.65	0	–	0	–
Outstanding as of Dec 31, 2017	**1,851,300**	**5.65**	**9,817,500**	**15.63**	**6,296,912**	**19.58**
Exercisable as of Dec 31, 2017	**1,514,700**	**5.65**	**0**	**–**	**0**	**–**
Outstanding as of Jan 1, 2018	**1,851,300**	**5.65**	**9,817,500**	**15.63**	**6,296,912**	**19.58**
Granted during the year	0	–	0	–	0	–
Forfeited during the year	0	–	0	–	195,851	26.38
Exercised during the year	504,900	5.65	200,000	1.00*	1,981,502	17.72
Outstanding as of Dec 31, 2018	**1,346,400**	**5.65**	**9,445,771**	**15.37**	**4,119,559**	**20.15**
Exercisable as of Dec 31, 2018	**1,346,400**	**5.65**	**9,445,771**	**15.37**	**2,620,820**	**17.72**
Weighted average remaining contractual life of outstanding options (in years)						
As of Dec 31, 2017	Unlimited		5.0		5.6	
As of Dec 31, 2018	Unlimited		4.0		4.8	
Weighted average share price for options exercised (in EUR)						
2017	41.39		–		–	
2018	44.50		45.95		43.35	

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

Valuation of Newly Granted Options

The fair values of the options newly granted during the current and the prior year were calculated using the input parameters shown in the table below. The fair value comprises the intrinsic value and the time value multiplied by the probability that the performance target will be reached.

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	EIP		VSOP 2017		VSOP 2018		LTI 2018	
	Number	Weighted average exercise price (in EUR)	Number	Weighted average exercise price (in EUR)	Number	Weighted average exercise price (in EUR)	Number	Weighted average exercise price (in EUR)
	879,721	**24.77**	**0**	**–**				
	1,241,238	36.03	870,000	42.24				
	188,899	28.09	0	–				
	–	–	0	–				
	1,932,060	**31.68**	**870,000**	**42.24**				
	0	**–**	**0**					
	1,932,060	**31.68**	**870,000**	**42.24**	**0**	**–**	**0**	**–**
	1,636,185	41.21	0	–	750,000	39.02	5,250,000	47.44
	97,455	35.38	0	–	0	–	0	–
	0	–	0	–	0	–	0	–
	3,470,790	**36.07**	**870,000**	**42.24**	**750,000**	**39.02**	**5,250,000**	**47.44**
	0	**–**	**0**	**–**	**0**	**–**	**0**	**–**
	7.0		4.5		–		–	
	6.7		3.5		4.8		7.8	

Valuation Parameters

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Valuation parameters 2017	EIP	VSOP 2017	VSOP 2018	LTI 2018
Option pricing model	Black-Scholes	Binomial		
Weighted average share price (in EUR)	39.3	40.0		
Weighted average exercise price (in EUR)	36.0	42.2		
Expected volatility (%)	36.0	36.0		
Expected dividends (%)	0.0	0.0		
Expected life of option (years)	4.0			
Risk-free interest rate for equivalent maturities (%)	–0.4	–0.2		
Probability of reaching the performance target (%)	93.5	93.1		
Weighted average fair value of option (in EUR)	13.3	11.6		

Valuation parameters 2018	EIP	VSOP 2017	VSOP 2018	LTI 2018
Option pricing model	Black-Scholes		Binomial	Binomial
Weighted average share price (in EUR)	47.3		44.3	45.2
Weighted average exercise price (in EUR)	41.2		39.0	47.4
Expected volatility (%)	32.1		34.0	33.0
Expected dividends (%)	0.0		0.0	0.0
Expected life of option (years)	4.1			
Risk-free interest rate for equivalent maturities (%)	–0.4		0.0	–0.3
Probability of reaching the performance target (%)	92.1		94.7	74.0
Weighted average fair value of option (in EUR)	15.4		15.8	10.9

The parameters used in the valuation were determined as follows: the share price was set with reference to the trading price of the Zalando share. The expected volatility used in the model is based on the historical share price of the Zalando share. A best estimate was made for the expected life of the option reflecting both, the contractual term and the expected, or historical exercise behavior. 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 around future performance.

(21.) Provisions

Provisions developed as follows in the reporting year:

Development of Provisions

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IN EUR M	Jan 1, 2018	Usage	Addition	Interest expense	Dec 31, 2018
Restoration obligations	14.9	0.0	17.9	0.3	33.1
Other provisions	1.2	0.5	0.3	0.0	1.0
Total	**16.1**	**0.5**	**18.2**	**0.3**	**34.1**

The provisions for restoration obligations exclusively related to leasehold improvements and were mainly increased by additional warehouses in Poland and Sweden. 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 2018:

Maturity of Provisions

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	Due in			
IN EUR M	Less than 1 year	1 – 5 years	More than 5 years	Total
Restoration obligations	0.0	2.9	30.2	33.1
Other provisions	0.1	0.6	0.3	1.0
Total	**0.1**	**3.5**	**30.5**	**34.1**

(22.) Trade Payables and Similar Liabilities and Prepayments Received

Trade payables and similar liabilities rose by EUR 178.9m to EUR 1,298.9m. The increase is largely due to deliveries of merchandise in light of the higher business volume.

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

Trade payables contain liabilities denominated in foreign currency equivalent to EUR 42.5m as of the reporting date (prior year: EUR 23.4m).

Prepayments received pertain to advance payments received from customers for orders.

(23.) Other Current Financial Liabilities and Other Current Non-Financial Liabilities

As of the reporting date, other current financial and non-financial liabilities comprise the following components:

Other Current Financial Liabilities and Other Current Non-Financial Liabilities → 110

IN EUR M	Dec 31, 2018	Dec 31, 2017	Change
Other current financial liabilities	**104.6**	**84.0**	**20.6**
thereof obligations to reimburse customers for returns	67.7	53.2	14.5
thereof debtors with credit balances	9.7	12.2	–2.5
thereof cash contribution for capital increase	0.0	3.3	–3.3
thereof others	27.2	15.3	11.9
Other current non-financial liabilities	**143.5**	**123.9**	**19.6**
thereof VAT liabilities	73.9	66.1	7.9
thereof liabilities from gift vouchers	27.7	24.2	3.6
thereof liabilities from wage and salary	29.4	25.6	3.8
thereof others	12.5	8.0	4.4

The increases in VAT liabilities and liabilities from gift vouchers are largely due to the higher business volume. Liabilities from the sale of gift vouchers are recognized at the value of the anticipated utilization. The changes in liabilities from wage and salary are mainly impacted by the increase in the number of employees (see section 3.5.8 (6.)).

(24.) Borrowings

Borrowings are due to banks and relate to the financing of fulfillment centers. For more information, please refer to section 3.5.8 Other Notes (1.).

(25.) Notes to the Statement of Cash Flows

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

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 from EUR –62.4m in the prior year to EUR –84.3m as of December 31, 2018 (also see section 2.2.3, Financial Position for details on net working capital development).

The cash outflow from investing activities mainly results from investments in the logistics infrastructure relating primarily to the fulfillment centers in Verona (Nogarole Rocca), Italy, Lodz (Gluchow), Poland, Szczecin (Gryfino), Poland, and Lahr and capital expenditures on internally developed software as well as furniture and fixtures. Capex, being the sum of the payments for investments in fixed and intangible assets excluding payments for acquisitions, amounted to EUR 278.4m (prior year: EUR 243.9m). Furthermore, in 2018 payments of EUR 57.0m were received resulting from the sale of a fulfillment center set up in Szczecin (Gryfino), Poland. The fulfillment center was leased back by Zalando after the sale. In 2018, an amount of EUR 7.1m was invested in corporate acquisitions (prior year: EUR 34.9m). Cash flow from investing activities further consists of cash disinvested in term deposits with an original term of more than three months and is therefore presented in cash flow from investing activities. In 2018, cash inflows from maturing term deposits amounted to EUR 20.0m, whereas the prior year contained cash inflows of EUR 180.0m. As of December 31, 2018, an amount of EUR 20.0m was still invested in such term deposits (December 31, 2017: EUR 40.0m).

Changes in borrowings impacted the statement of cash flows and the statement of financial position as follows.

Reconciliation of Liabilities Arising from Financing Activities

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IN EUR M	Carrying amount as of Dec 31, 2017	Cash flows	Non-cash flow changes	Carrying amount as of Dec 31, 2018
Non-current borrowings	8.4	0.0	–2.8	5.6
Current borrowings	2.8	–2.8	2.8	2.8

IN EUR M	Carrying amount as of Dec 31, 2016	Cash flows	Non-cash flow changes	Carrying amount as of Dec 31, 2017
Non-current borrowings	11.2	0.0	–2.8	8.4
Current borrowings	3.2	–3.2	2.8	2.8

As a result, cash and cash equivalents decreased by EUR 70.5m during the year, resulting in Zalando carrying cash and cash equivalents of EUR 995.0m as of December 31, 2018. Free cash flow increased by EUR 71.3m from EUR –85.0m to EUR –13.8m compared to the prior year.

Zalando's liquidity position – as the sum of cash and cash equivalents plus term deposits with an original term of more than three months but less than twelve months – declined in 2018 by EUR 90.5m to EUR 1,015.0m.

(26.) 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

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	Deferred tax assets		Deferred tax liabilities		Net balance	
IN EUR M	Dec 31, 2018	Dec 31, 2017	Dec 31, 2018	Dec 31, 2017	Dec 31, 2018	Dec 31, 2017
Intangible assets	0.4	2.1	–29.7	–27.9	–29.4	–25.8
Property, plant and equipment	0.5	0.1	–7.0	–3.5	–6.5	–3.4
Inventories	0.4	0.6	–6.4	–5.3	–6.0	–4.7
Trade and other receivables	1.4	1.2	–3.9	–11.9	–2.5	–10.7
Provisions	8.2	3.8	0.0	0.0	8.2	3.8
Other financial and non–financial liabilities	7.5	5.2	–0.3	0.0	7.2	5.2
Share based compensations	6.4	1.4	0.0	0.0	6.4	1.4
Unused tax losses	1.3	0.2	0.0	0.0	1.3	0.2
Total	**26.1**	**14.7**	**–47.3**	**–48.7**	**–21.2**	**–34.0**
Netting	**–23.8**	**–13.2**	**23.8**	**13.2**	**0.0**	**0.0**
Total recognized deferred tax assets and liabilities	**2.3**	**1.4**	**–23.5**	**–35.4**	**–21.2**	**–34.0**

The decrease of net deferred tax liabilities is mainly impacted by a decline in the market value of hedging derivatives and by derecognition of other derivatives (EUR 10.1m). Furthermore, provisions for restoration obligations also reduced net deferred tax liabilities (EUR 4.4m).

Changes in the fair values of hedging derivatives (cash flow hedges) in equity had an equity-decreasing effect from deferred taxes of EUR 2.2m (prior year: EUR –3.3m), which are included in other comprehensive income.

Deferred tax assets on unused tax losses in the 2018 reporting year pertain primarily to foreign subsidiaries (EUR 1.3m; prior year EUR 0.2m). The amounts recognized are based on the tax results expected in the planning period.

(27.) Financial Instruments

Carrying Amounts of Financial Assets / Liabilities and Their Fair Values 2018 → 113

IN EUR M	Category pursuant to IFRS 9*	Carrying amount as of Dec 31, 2018	Amount recognized in the balance sheet pursuant to IFRS 9: Amortized cost	Fair value not through profit or loss	Fair value through profit or loss	Fair value as of Dec 31, 2018
Assets						
Cash and cash equivalents	AC	995.0	995.0	–	–	–
Trade receivables	AC	395.1	395.1	–	–	–
Other financial assets	AC	54.8	54.8	–	–	–
Derivative financial instruments designated as hedging instruments	n.a.	6.2	–	7.0	–0.7	6.2
Other derivative financial instruments	FVtPL	2.7	–	–	2.7	2.7
Corporate investments	FVtPL	9.2	–	–	9.2	–
Liabilities						
Trade payables and similar liabilities	FLAC	1,298.9	1,298.9	–	–	–
Financial liabilities	FLAC	8.4	8.4	–	–	8.3
Other financial liabilities	FLAC	90.7	90.7	–	–	–
Derivative financial instruments designated as hedging instruments	n.a.	13.2	–	14.1	–0.9	13.2
Other derivative financial instruments	FVtPL	3.1	–	–	3.1	3.1

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

Carrying Amounts of Financial Assets / Liabilities and Their Fair Values 2017 → 114

IN EUR M	Category pursuant to IFRS 9*	Carrying amount as of Dec 31, 2017	Amount recognized in the balance sheet pursuant to IFRS 9: Amortized cost	Fair value not through profit and loss	Fair value through profit and loss	Fair value as of Dec 31, 2017
Assets						
Cash and cash equivalents	AC	1,065.5	1,065.5	–	–	–
Trade receivables	AC	278.7	278.7	–	–	–
Other financial assets	AC	64.7	64.7	–	–	–
Derivative financial instruments designated as hedging instruments	n.a.	17.2	–	17.2	–	17.2
Other derivative financial instruments	FVtPL	20.6	–	–	20.6	20.6
Corporate investments	FVtPL	4.1	–	–	4.1	–
Liabilities						
Trade payables and similar liabilities	FLAC	1,120.0	1,120.0	–	–	–
Financial liabilities	FLAC	11.2	11.2	–	–	11.9
Other financial liabilities	FLAC	78.3	78.3	–	–	–
Derivative financial instruments designated as hedging instruments	n.a.	5.7	–	5.7	–	5.7
Other derivative financial instruments	FVtPL	2.1	–	–	2.1	2.1

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

As of the reporting date, Zalando had forward exchange contracts in pounds sterling, Norwegian kroner, Polish zloty, Swedish kronor, Swiss francs and US dollars as well as interest rate swaps in euros.

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

Nominal Amounts and Market Values of Derivative Financial Instruments

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		Market value				
	Nominal value	Assets	Liabilities	Total	Nominal value	Market value
IN EUR M	Dec 31, 2018	Dec 31, 2018	Dec 31, 2018	Dec 31, 2018	Dec 31, 2017	Dec 31, 2017
Forward exchange contracts	1,586.2	8.2	15.4	–7.2	1,288.1	14.8
Interest rate swaps	5.0	0.0	0.1	–0.1	6.7	–0.2
Total	**1,591.2**	**8.2**	**15.5**	**–7.3**	**1,294.8**	**14.7**

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 as well as forward exchange contracts that are not 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, the credit risk for the group amounts to EUR 0.2m as of the reporting date (prior year: EUR 15.0m).

The forward exchange contracts in place as of the reporting date have a remaining term of up to 13 months.

In the reporting period, income from fair value measurement of financial instruments designated as a cash flow hedge of EUR –7.2m (prior year: EUR 11.5m) was recognized directly in equity.

Net Gains and Losses from Financial Assets and Financial Liabilities

The net gains/losses from financial assets and financial liabilities contain effects from the fair value measurement of derivatives that are not designated as a hedge and changes in the fair value of other financial instruments as well as interest payments. In addition, the net gains/losses contain effects from the impairment losses, reversals of impairment losses, derecognition and exchange rate fluctuations of loans and receivables as well as liabilities measured at amortized cost.

Net Gains and Losses from Financial Instruments 2018

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IN EUR M	From interest affecting profit or loss	From subsequent measurement affecting profit or loss			From disposal affecting profit or loss	Total 2018
		At fair value	Currency translation	Allowances		
Assets						
Amortized costs	1.7	0.0	5.4	–47.1	–2.8	–42.8
Fair value through profit or loss	–1.5	4.9	0.0	0.0	0.0	3.4
Liabilities						
Amortized costs	–7.9	0.0	0.4	0.0	0.0	–7.5
Total	**–7.7**	**4.9**	**5.8**	**–47.1**	**–2.8**	**–46.9**

Net Gains and Losses from Financial Instruments 2017

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IN EUR M	From interest affecting profit or loss	From subsequent measurement affecting profit or loss			From disposal affecting profit or loss	Total 2017
		At fair value	Currency translation	Allowances		
Assets						
Amortized costs	–2.2	0.0	–3.8	–38.0	–3.8	–47.8
Fair value through profit or loss	1.6	1.0	0.0	0.0	0.0	2.6
Liabilities						
Amortized costs	–7.5	0.0	0.5	0.0	0.0	–7.1
Total	**–8.2**	**1.0**	**–3.3**	**–38.0**	**–3.8**	**–52.3**

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 regards to financial instruments that are regularly measured at fair value, the group determines whether items are to be reclassified between hierarchy levels. This is determined by reassessing the inputs of the lowest level that is of significance for fair value measurement as of the end of the reporting period.

As in the prior year, derivative financial instruments that are designated as a hedge are allocated to level 2. The forward exchange contracts are measured based on observable spot foreign exchange rates 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. No other input factors were considered.

In 2017, other financial assets included an interest in the proceeds from the sale of developed land owned by third parties. This was measured at fair value through profit or loss using the income approach and level 3 inputs of the fair value hierarchy (observable sales price). As of December 31, 2018, the asset was no longer measured at fair value through profit or loss (prior year: EUR 15.6m).

Offsetting

Zalando concludes agreements for derivative financial instruments in accordance with the global netting agreements of the ISDA (International Swaps and Derivatives Association) and other comparable national framework agreements. The requirements according to IAS 32.42 on presenting a net amount of financial instruments recognized in the statement of financial position is typically not met as they only grant the right to offset for future events, for instance the default of one of the contractual parties.

Financial assets and liabilities that are subject to netting agreements or similar contracts are presented below.

Netting of Financial Instruments 2018

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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, 2018
Financial assets					
Derivative financial assets	8.2	0.0	8.2	6.5	1.7
Financial liabilities					
Derivative financial liabilities	15.4	0.0	15.4	6.5	8.9

Netting of Financial Instruments 2017

→ 119

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, 2017
Financial assets					
Derivative financial assets	22.5	0.0	22.5	7.5	15.0
Financial liabilities					
Derivative financial liabilities	7.6	0.0	7.6	7.5	0.0

3.5.8 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 foreign local 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 United Kingdom, Poland, Hong Kong 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, 2018, earnings before taxes would have been EUR 12.8m lower (prior year: EUR 5.0m). If the euro had depreciated 5% compared with the exchange rate as of December 31, 2018, earnings before taxes would have been EUR 14.2m higher (prior year: EUR 5.6m).

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

Foreign Currency Sensitivity on Profit or Loss 2018

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	Impacts on profit or loss								
IN EUR M	CHF	CZK	DKK	GBP	NOK	PLN	SEK	USD	Total
FX rate as of Dec 31, 2018	**1.1269**	**25.7240**	**7.4673**	**0.8945**	**9.9483**	**4.3014**	**10.2548**	**1.1450**	
5% increase in FX rate	–5.0	–0.3	–1.0	–1.4	–0.8	–3.1	–0.9	–0.3	–12.8
5% decrease in FX rate	5.5	0.3	1.1	1.5	0.9	3.5	1.0	0.4	14.2

The reserve for derivatives in group equity would have been EUR 43.5m higher (prior year: EUR 38.8m higher) if the euro had appreciated 5% compared with the exchange rate as of December 31, 2018. This reserve would have been EUR 48.1m lower (prior year: EUR 42.9m lower) if the euro had depreciated 5%.

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

Foreign Currency Sensitivity on Other Comprehensive Income 2018

→ 121

	Impact on other comprehensive income								
IN EUR M	CHF	CZK	DKK	GBP	NOK	PLN	SEK	USD	Total
FX rate as Dec 31, 2018	**1.1269**	**25.7240**	**7.4673**	**0.8945**	**9.9483**	**4.3014**	**10.2548**	**1.1450**	
5% increase in FX rate	30.0	0.0	0.0	–1.7	6.1	9.2	7.6	–7.8	43.5
5% decrease in FX rate	–33.2	0.0	0.0	1.8	–6.7	–10.2	–8.4	8.6	–48.1

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

To reduce the liquidity risk further, Zalando uses reverse factoring as an additional financing source to extend 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, 2018, and December 31, 2017, 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, 2018, and December 31, 2017, respectively. All on-call financial liabilities are always allocated to the earliest possible date.

Payments for Financial Liabilities and Derivative Financial Instruments 2018

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	Carrying amount	Cash flows 2018		Cash flows 2019 – 2022		Cash flows 2024 ff.	
IN EUR M	Dec 31, 2018	Interest	Repayments	Interest	Repayments	Interest	Repayments
Borrowings	8.4	0.2	2.8	0.2	5.6	0.0	0.0
Trade payables and similar liabilities	1,298.9	1.4	1,298.9	0.0	0.0	0.0	0.0
Other financial liabilities	106.9	0.1	104.6	0.1	2.4	0.0	0.0
thereof from derivatives	15.5	0.1	14.1	0.1	1.3	0.0	0.0
Total	**1,414.2**	**1.7**	**1,406.3**	**0.3**	**7.9**	**0.0**	**0.0**

Payments for Financial Liabilities and Derivative Financial Instruments 2017

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	Carrying amount	Cash flows 2017		Cash flows 2018 – 2021		Cash flows 2023 ff.	
IN EUR M	Dec 31, 2017	Interest	Repayments	Interest	Repayments	Interest	Repayments
Borrowings	11.2	0.3	2.8	0.4	8.4	0.0	0.0
Trade payables and similar liabilities	1,120.0	1.6	1,120.0	0.0	0.0	0.0	0.0
Other financial liabilities	88.5	0.1	84.0	0.1	4.5	0.0	0.0
thereof from derivatives	10.2	0.1	7.1	0.1	2.9	0.0	0.0
Total	**1,219.6**	**2.0**	**1,206.8**	**0.6**	**12.8**	**0.0**	**0.0**

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 47.9% as of the reporting date (prior year: 51.6%) and net working capital came to EUR –84.3m as of the reporting date (prior year: EUR –62.4m). The company achieved the key performance indicator targets set by management during both the 2018 year and in the prior year.

Collateral

Zalando pledged financial assets of EUR 2.9m as collateral in the reporting period (prior year: EUR 2.5m). They mainly relate to collateral in connection with lease. 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.

Goods and services from related parties give rise to liabilities of EUR 86.7m as of the reporting date (prior year: EUR 67.3m). Of this amount, EUR 82.1m (prior year: EUR 65.4m) is due to a reverse factoring provider on account of reverse factoring agreements between Zalando and related parties. As a result, there were trade payables or similar liabilities due directly to related parties totaling EUR 4.5m (prior year: EUR 1.9m). Furthermore, trade receivables from related parties amount to EUR 0.3m (prior year: EUR 0.3m).

Merchandise of EUR 215.1m was ordered from related parties in the reporting period. The order volume totaled EUR 161.2m in the comparative period of the prior year. In addition, goods totaling EUR 4.5m were sold to related parties (prior year: EUR 2.7m). The cost of services received from related parties came to EUR 0.3m in the reporting period (prior year: EUR 3.5m). Furthermore, Zalando provided services to related parties totaling EUR 0.5m (prior year: EUR 0.0m).

Related parties controlled by ZALANDO SE are presented 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

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zln.do/en-management-board

Management Board	Profession
Robert Gentz	Management Board member responsible for the Offprice and Emerging Businesses business units, and for Human Resources, Strategy, and Technology Infrastructure
David Schneider	Management Board member responsible for the Zalando brand and the Partner Solutions and zLabels business units
Rubin Ritter	Management Board member responsible for the Fashion Store business unit, Finance, Corporate Governance, and Corporate Communications

Members of the Supervisory Board

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

The members of the Management Board and Supervisory Board only receive remuneration relating to their function as persons in key positions.

In fiscal year 2018, expenses of EUR 11.1m were recorded for the members of management who hold key positions in the group (prior year: EUR 4.3m). Of this amount, EUR 10.5m is attributable to share-based payment awards in fiscal year 2018 (prior year: EUR 3.7m). The expenses for share-based payment awards are calculated using graded vesting, which means that the periodical 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 fiscal years 2011, 2013 and 2018. 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 3.5.7 (20.) of the notes to the consolidated financial statements.

(3.) Remuneration of the Management Board and Supervisory Board of ZALANDO SE

Total remuneration of the Management Board totaled EUR 0.6m in fiscal year 2018 (prior year: EUR 0.6m). In fiscal year 2018 5.3m new option rights were granted to the Management Board under the new Stock Option Plan LTI 2018 (prior year: 0 options). The options have a total fair value of EUR 57.5m. Further information regarding Section 314 (1) No. 6a HGB can be found in the remuneration report, which is presented in the corporate governance report and is part of the combined management report.

The members of the Supervisory Board received remuneration of EUR 0.8m in fiscal year 2018 (prior year: EUR 0.8m). The Management Board and Supervisory Board propose to the annual general meeting the granting of remuneration in accordance with the provision contained in Art. 15 of ZALANDO SE's Articles of Association.

(4.) 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 2018 is published on the company's website.

(5.) Business Combinations

There were no business combinations in fiscal year 2018. In 2017, Zalando invested in corporate acquisitions totaling EUR 26.7m. These acquisitions included KICKZ Never Not Ballin' GmbH, Munich, Germany (KICKZ), and Anatwine Ltd, Cheltenham, United Kingdom (Anatwine).

(6.) 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

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	2018	2017
Commercial	2,417	1,939
Operations	9,465	8,445
Technology	2,090	1,852
Other	1,554	1,704
Total	**15,526**	**13,940**

(7.) 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 twelve 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 55.8m in the reporting period (prior year: EUR 45.3m). Future minimum lease payments under non-cancelable operating leases are shown in the following table:

Future Minimum Lease Payments

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IN EUR M	Less than 1 year	1 – 5 years	More than 5 years	Total
Dec 31, 2018	**63.6**	**240.4**	**229.8**	**533.8**
Dec 31, 2017	64.5	190.7	55.4	310.6

There are no future minimum receipts from non-cancelable operating sub-leases.

(8.) 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, 2018, 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 0.7m for the audit (separate and consolidated financial statements) (prior year: EUR 0.7m) and
- EUR 0.1m for other assurance services (prior year: EUR 0.1m).

(9.) Shareholdings

ZALANDO SE's direct and indirect shareholdings in its subsidiaries as of December 31, 2018, can be summarized as follows:

List of Shareholdings

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No.	Company	Company domicile	Currency	Share of equity held by*	Share in capital in % 2018
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	Mönchenglad-bach	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 Studios Erfurt SE & Co. KG	Berlin	EUR	Directly 2	99.0 1.0
10	Zalando Fashion Entrepreneurs GmbH	Berlin	EUR	Directly	100.0
11	Zalando Lounge Service GmbH	Berlin	EUR	Directly	100.0
12	Zalando Outlets GmbH	Berlin	EUR	Directly	100.0
13	Zalando Ireland Ltd.	Dublin, Ireland	EUR	Directly	100.0
14	Zalando Finland Oy	Helsinki, Finland	EUR	Directly	100.0
15	Bread & Butter GmbH & Co. KG	Berlin	EUR	Directly	100.0
16	Portokali Property Development III SE & Co. KG	Berlin	EUR	Directly 2	99.9 0.1
17	Zalando Studios Berlin GmbH	Berlin	EUR	Directly	100.0
18	Mobile Fashion Discovery GmbH	Berlin	EUR	Directly	100.0
19	Zalando Marketing Services GmbH	Berlin	EUR	Directly	100.0
20	Bread & Butter Tradeshow Verwaltungs GmbH	Berlin	EUR	15	100.0
21	zLabels Trading Ltd.	Hong Kong, Hong Kong	HKD	1	100.0

22	zLabels China Trading Co. Ltd.	Dongguan, China	CNY	21	100.0
23	ifansho Holding GmbH	Berlin	EUR	Directly	100.0
24	nugg.ad GmbH	Berlin	EUR	19	100.0
25	Zalando Logistics Operations Polska sp. z o.o.	Gardno, Poland	PLN	2	100.0
26	Tradebyte Software GmbH	Ansbach	EUR	Directly	100.0
27	Zalando Lounge Logistics SE & Co. KG	Berlin	EUR	Directly 2	99.0 1.0
28	zLabels Trading Southern Europe S.L.U	Elche, Spain	EUR	1	100.0
29	zLabels LP GmbH	Berlin	EUR	1	100.0
30	Zalando Payments GmbH	Berlin	EUR	Directly	100.0
31	Zalando Digital Portugal, Unipessoal Lda	Lisbon, Portugal	EUR	Directly	100.0
32	Kickz Never Not Ballin' GmbH	Munich	EUR	Directly	100.0
33	Zalando Beauty Store GmbH	Berlin	EUR	Directly	100.0
34	Zalando Lounge Logistics Polska sp. z o.o.	Warsaw, Poland	PLN	Directly	100.0
35	Anatwine Ltd.	Cheltenham, United Kingdom	GBP	Directly	98.5
36	Anatwine, Inc.	New Castle, Delaware, USA	USD	35	100.0
37	Zalando OpCo Polska sp. z o.o.	Warsaw, Poland	PLN	2	100.0
38	zLabels Creation & Sales GmbH & Co. KG	Berlin	EUR	1 29	99.0 1.0
39	zLabels Platform Services GmbH & Co. KG	Berlin	EUR	1 29	99.0 1.0
40	Zalando Logistics Operations Italy S.R.L.	Bolzano, Italy	EUR	Directly	100.0
41	FTGRB B.V.	Amsterdam, Netherlands	EUR	Directly	100.0
42	Zalando Lounge Content Solutions SE & Co. KG	Berlin	EUR	Directly 11	99.0 1.0
43	Zalando BTD 004 SE & Co. KG	Berlin	EUR	Directly 2	99.0 1.0
44	Zalando BTD 005 SE & Co. KG	Berlin	EUR	Directly 2	99.0 1.0
Associated companies					
45	Le New Black S.A.S.	Paris, France	EUR	23	33.8
46	FashionTrade.com B.V.	Amsterdam, Netherlands	EUR	23	50.0

*) The number refers to the number of the company.

(10.) Disclosure Exemptions

In accordance with Section 264b HGB, the partnerships[42] 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, zLabels GmbH, Zalando Lounge Service GmbH, Zalando Outlets GmbH, Zalando Fashion Entrepreneurs GmbH, Tradebyte Software GmbH and Zalando Marketing Services GmbH are exempt from the requirement to disclose their financial statements and to prepare notes to the financial statements and a management report.

(11.) 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 3.5.2 in accordance with IFRS.

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

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

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

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. No information on segment assets or liabilities is available or relevant for decision-making.

42) Partnerships, which are exempt from the requirement to disclose their financial statements are presented with the following numbers in the shareholding table on the previous pages: 3, 4, 5, 7, 8, 9, 15, 16, 27, 38, 39, 42, 43, 44.

Segment Reporting 2018

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IN EUR M	Fashion Store	Offprice	All other segments	Total 2018	Reconciliation	Total group
Revenue	4,967.7	497.5	444.8	5,909.9	–522.0	5,387.9
thereof intersegment revenue	183.0	0.0	339.0	522.0	–522.0	0.0
Cost of sales	–2,945.3	–299.3	–357.9	–3,602.5	495.5	–3,107.0
thereof intersegment cost of sales	–370.3	0.0	–269.1	–639.3	639.3	0.0
Gross profit	**2,022.4**	**198.2**	**86.8**	**2,307.4**	**–26.5**	**2,280.9**
thereof intersegment gross profit	–187.3	0.0	70.0	–117.3	117.3	0.0
Selling and distribution costs	–1,709.5	–143.8	–73.1	–1,926.4	27.2	–1,899.2
thereof intersegment selling and distribution costs	–27.2	0.0	0.0	–27.2	27.2	0.0
Administrative expenses	–200.9	–23.1	–44.9	–268.9	0.0	–268.9
Other operating income / expenses	3.9	0.9	1.6	6.4	0.0	6.4
Earnings before interest and taxes (EBIT)	**115.8**	**32.3**	**–29.6**	**118.6**	**0.7**	**119.2**

Segment Reporting 2017

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IN EUR M	Fashion Store	Offprice	All other segments	Total 2017	Reconciliation	Total group
Revenue	4,150.5	345.3	345.3	4,841.0	–352.0	4,489.0
thereof intersegment revenue	80.9	0.0	271.1	352.0	–352.0	0.0
Cost of sales	–2,398.9	–196.6	–280.4	–2,875.9	346.3	–2,529.6
thereof intersegment cost of sales	–248.8	0.0	–219.2	–468.0	468.0	0.0
Gross profit	**1,751.6**	**148.6**	**64.9**	**1,965.1**	**–5.7**	**1,959.4**
thereof intersegment gross profit	–167.9	0.0	51.9	–116.0	116.0	0.0
Selling and distribution costs	–1,382.1	–104.8	–49.5	–1,536.4	5.7	–1,530.8
thereof intersegment selling and distribution costs	–5.7	0.0	0.0	–5.7	5.7	0.0
Administrative expenses	–182.9	–18.0	–42.0	–242.9	0.0	–242.9
Other operating income / expenses	2.5	0.1	–0.8	1.9	0.0	1.9
Earnings before interest and taxes (EBIT)	**189.0**	**26.0**	**–27.4**	**187.6**	**0.0**	**187.6**

Financial information for the Fashion Store segment, including intersegment transactions, break down into the regions DACH and Rest of Europe as follows:

Fashion Store Results by Region 2018

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

Fashion Store Results by Region 2017

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

External revenue in the Fashion Store and the Offprice segments almost exclusively stems from the sale of merchandise in 2018 as well as in the prior year. All other segments mostly record revenue from the sale of merchandise in 2018 as well as in the prior year.

The following explanations refer to consolidated group figures excluding intersegment transactions.

Of the total external revenue generated in the Fashion Store segment, Germany accounts for 29.3% (prior year: 31.1%). In the Offprice segment, Germany accounts for 34.2% of total revenue (prior year: 35.3%), in all other segments, Germany accounts for 31.5% of total revenue (prior year: 37.7%). The majority of the non-current assets of the group are located in Germany. The group also holds considerable non-current assets in its fulfillment centers in Poland, Italy, Sweden and France.

Cost of sales include valuation allowances of inventories for the Fashion Store segment of EUR 151.8m (prior year: EUR 115.3m), for the Offprice segment of EUR 9.2m (prior year: EUR 11.9m) and for all other segments of EUR 3.2m (prior year: EUR 0.4m).

The selling and distribution costs contain valuation allowances of trade receivables and write-downs due to uncollectible receivables for the Fashion Store segment of EUR 47.2m (prior year: EUR 39.5m), for the Offprice segment of EUR 1.0m (prior year: EUR 1.1m) and for all other segments of EUR 1.7m (prior year: EUR 1.2m).

Total expenses include depreciation and amortization of property, plant and equipment and intangible assets for the Fashion Store segment of EUR 73.5m (prior year: EUR 51.4m), for the Offprice segment of EUR 5.0m (prior year: EUR 4.1m) and for all other segments of EUR 8.0m (prior year: EUR 3.2m).

The group's financial result is not allocated to the segments.

(12.) 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.

(13.) 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 25, 2019.

Berlin, February 25, 2019

The Management Board

Robert Gentz David Schneider Rubin Ritter

3.6 Responsibility Statement by the Management Board

We assure to the best of our knowledge and in accordance with the applicable reporting principles that the consolidated financial statements give a true and fair view of the assets, liabilities, financial position and profit or loss of the group, and that the group management report, which is combined with the management report of ZALANDO SE, includes a fair review of the development and performance of the business and the position of the group, together with a description of the material opportunities and risks associated with the expected development of the group.

Berlin, February 25, 2019

The Management Board

Robert Gentz David Schneider Rubin Ritter

3.7 Independent Auditor's Report

To ZALANDO SE

Report on the Audit of the Consolidated Financial Statements and of the Group Management Report

Opinions

We have audited the consolidated financial statements of ZALANDO SE, Berlin, its subsidiaries (the group), which comprise the consolidated statement of comprehensive income for the fiscal year from January 1 to December 31, 2018, the consolidated statement of financial position as at December 31, 2018, the consolidated statement of changes in equity and the consolidated statement of cash flows for the fiscal year from January 1 to December 31, 2018, and the notes to the consolidated financial statements, including a summary of significant accounting policies. We have also audited the combined management report of ZALANDO SE, which is combined with the management report of the company, for the fiscal year from January 1 to December 31, 2018. In accordance with the German legal requirements, we have not audited the information included in the statement on corporate governance in accordance with Section 315d HGB ["Handelsgesetzbuch": German Commercial Code] contained in the corporate governance report in the combined management report.

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

- the accompanying consolidated financial statements comply, in all material respects, with IFRSs as adopted by the EU and the supplementary provisions of German law pursuant to Section 315e (1) HGB and give a true and fair view of the assets and liabilities and financial position of the group as at December 31, 2018, and its financial performance for the fiscal year from January 1 to December 31, 2018, in accordance with these requirements, and
- the accompanying group management report as a whole provides an appropriate view of the group's position. In all material respects, this group management report is consistent with the consolidated financial statements, complies with German legal requirements and appropriately presents the opportunities and risks of future development. Our opinion on the combined management report does not cover the content of the statement on corporate governance pursuant to Section 315d HGB contained in the corporate governance report of the combined management report.

Pursuant to Section 322 (3) Sentence 1 HGB, we declare that our audit has not led to any reservations relating to the legal compliance of the consolidated financial statements and of the combined management report.

Basis for the Opinions

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

Key Audit Matters in the Audit of the Consolidated Financial Statements

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements for the fiscal year from January 1 to December 31, 2018. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon; we do not provide a separate opinion on these matters.

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

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

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

As part of selling merchandise to customers, Zalando typically satisfies its performance obligation when the merchandise is delivered, i.e., the date on which control is transferred to the customer. Zalando customers have the option to return merchandise free of charge within the revocation period stipulated by law and, in addition to that period, the return periods granted by Zalando. Zalando SE's executive directors calculated expected returns, for which no revenue is recognized. This calculation is based on assumptions and judgments in particular on country-specific, payment method-specific and month-specific rates of returns, taking seasonal influences into account. Revenue has a significant influence on the net income of the group and is one of the most important performance indicators for the Zalando group.

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

Auditor's Response

In the course of our audit, we traced the process of revenue recognition from the order through to payment receipt on the basis of the documentation provided to us. We also evaluated compliance with the revenue recognition requirements under IFRS 15 and tested the effectiveness of the internal controls in place. This approach includes in particular the operating effectiveness of IT-supported controls. In order to identify anomalies regarding revenue and the development of revenue, we developed a forecast of country-specific revenue from the sale of merchandise based on historical daily, weekly and monthly revenue and compared it with the revenue recognized in the current fiscal year. In addition, we examined the posting ledger for any revenue entries that were entered manually and analyzed the respective contra accounts.

Moreover, as part of the substantive audit procedures, we obtained documentation (delivery slips, invoices, payment receipts) for a test of sales based on mathematical-statistical assumptions regarding the existence of revenue in order to determine whether the revenue recognized was based on a corresponding delivery of merchandise. We also verified the clerical accuracy of the expected returns as determined by the executive directors of ZALANDO SE. We compared the assumed month-specific, payment method-specific and country-specific rate of returns with actual historical month-specific, payment method-specific and country-specific rates of returns, among other things, taking seasonal influences into account and analyzed them. In order to evaluate the assumed month-specific, payment method-specific and country-specific rate of returns, we also compared this to the merchandise actually returned by the time we concluded our audit.

Our procedures did not lead to any reservations relating to the measurement of revenue from the dispatch of merchandise, taking expected returns into account.

Reference to Related Disclosures
With regard to the accounting policies applied for the recognition of merchandise revenue, we refer to the company's disclosures in Sections 3.5.5. (Accounting and Valuation Methods) and 3.5.7 (1.) (Revenue) in the Notes to the Consolidated Financial Statements.

2) Subsequent Measurement of Merchandise Inventory

Reasons Why the Matter Was Determined to Be a Key Audit Matter
The merchandise inventory of the Zalando group is continuously subject to risks associated with existing and potential future excess stocks, which are sold with high discounts through distance retail or are disposed of outside of distance retail. Write-downs on estimated future excess stocks as well as existing excess stocks are calculated at the end of the reporting period and recognized in the consolidated financial statements.

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

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

Auditor's Response

We evaluated the compliance of the accounting policies ZALANDO SE's executive directors applied in calculating the merchandise inventory and the timely recognition of write-downs with the regulations in IAS 2 (Inventories).

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

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

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

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

Reference to Related Disclosures

With regard to the accounting policies applied for the subsequent measurement of merchandise inventory, we refer to the company's disclosures in Sections 3.5.5. (Accounting and Valuation Methods) and 3.5.7 (15.) (Inventories and Prepayments) in the Notes to the Consolidated Financial Statements.

3) Recognition and Measurement of Capitalized Development Costs for Internally Generated Software

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

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

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

Auditor's Response

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

We also assessed compliance with the criteria for the recognition of development costs defined in IAS 38 (Intangible Assets). We verified the company's analyses for recognizing the development costs of internally generated software (including the recognition of time taken for development as well as regarding the progress of the project) and performed substantive audit procedures.

The substantive audit procedures contained, among other things, an analytical review of the list of all capitalized software development projects in terms of their amount and age structure. Furthermore, we performed substantive tests on a sample basis of the software development projects capitalized in the fiscal year in terms of the ability to recognize development costs, the existence of substantial developments compared to software solutions that have already been developed, the executive directors' assumptions in determining useful lives and in deciding when to commence amortization. We verified and assessed the existence of substantial developments as well as the amount and period of the expected economic benefit using the criteria for recognition of the individual projects documented by the executive directors. For estimating the useful lives and the commencement of amortization, we discussed the useful lives and capitalization dates for the software development projects with the executive directors to determine which estimates and considerations were used for the values used as a basis. To assess the useful lives, we reconciled them with comparable projects recognized in the past. We also verified on a sample basis the amount of the capitalized development costs for significant projects using the supporting documentation for the hours worked.

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

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

Reference to Related Disclosures

With regard to the accounting policies applied for the capitalization of development costs for internally generated software, we refer to the company's disclosures in Sections 3.5.5. (Accounting and Valuation Methods) and 3.5.7 (11.) (Intangible Assets) in the Notes to the Consolidated Financial Statements.

Other Information

The Supervisory Board is responsible for the report of the Supervisory Board. In all other respects, the executive directors are responsible for the other information. Other information comprises the information included in the statement on corporate governance pursuant to Section 315d HGB contained in the corporate governance report in the combined management report as well as the remaining components of the annual report, with the exception of the audited consolidated financial statements and combined management report as well as our independent auditor's report, in particular:

- the responsibility statement contained in the responsibility statement by the Management Board pursuant to Section 297 (2) Sentence 4 HGB and Section 315 (1) Sentence 5 HGB
- the combined non-financial report contained in the "Corporate Responsibility" section pursuant to Section 315b HGB
- the "Report of the Supervisory Board" section.

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

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

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

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

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

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

Management is responsible for the preparation of the consolidated financial statements that comply, in all material respects, with IFRSs as adopted in the EU and the additional requirements of German commercial law pursuant to Section 315e (1) HGB and for the preparation of the consolidated financial statements that, in compliance with these requirements, give a true and fair view of the assets and liabilities, financial position and financial performance of the group. In addition, the executive directors are responsible for such internal control as they have determined necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, the executive directors are responsible for assessing the group's ability to continue as a going concern. They also have the responsibility for disclosing, as applicable, matters related to going concern. In addition, they are responsible for financial reporting based on the going concern basis of accounting unless there is an intention to liquidate the group or to cease operations, or there is no realistic alternative but to do so.

Furthermore, the executive directors are responsible for the preparation of the group management report that, as a whole, provides an appropriate view of the group's position and is, in all material respects, consistent with the consolidated financial statements, complies with German legal requirements, and appropriately presents the opportunities and risks of future development.

In addition, the executive directors are responsible for such arrangements and measures (systems) as they have considered necessary to enable the preparation of a combined management report that is in accordance with the applicable German legal requirements, and to be able to provide sufficient appropriate evidence for the assertions in the combined management report.

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

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

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

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

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

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

- Evaluate the appropriateness of accounting policies used by the executive directors and the reasonableness of estimates made by the executive directors and related disclosures;
- Conclude on the appropriateness of the executive directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in the auditor's report to the related disclosures in the consolidated financial statements and in the group management report or, if such disclosures are inadequate, to modify our respective opinions. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the group to cease to be able to continue as a going concern;
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements present the underlying transactions and events in a manner that the consolidated financial statements give a true and fair view of the assets, liabilities, financial position and financial performance of the group in compliance with IFRSs as adopted by the EU and the additional requirements of German commercial law pursuant to Section 315e (1) HGB;
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the group to express opinions on the consolidated financial statements and on the group management report. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinions;
- Evaluate the consistency of the combined management report with the consolidated financial statements, its conformity with [German] law, and the view of the group's position it provides;
- Perform audit procedures on the prospective information presented by the executive directors in the group management report. On the basis of sufficient appropriate audit evidence we evaluate, in particular, the significant assumptions used by the executive directors as a basis for the prospective information, and evaluate the proper derivation of the prospective information from these assumptions. We do not express a separate opinion on the prospective information and on the assumptions used as a basis. There is a substantial unavoidable risk that future events will differ materially from the prospective information.

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

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

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

Other Legal and Regulatory Requirements

Further Information Pursuant to Article 10 of the EU Audit Regulation

We were elected as group auditor by the annual general meeting on May 23, 2018. We were engaged by the Supervisory Board on July 30, 2018. We have been the group auditor of ZALANDO SE without interruption since fiscal year 2010. ZALANDO SE has been a corporation geared to the capital market pursuant to Section 264d HGB since 2014.

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

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

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

German Public Auditor Responsible for the Engagement

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

Berlin, February 25, 2019

Ernst & Young GmbH
Wirtschaftsprüfungsgesellschaft

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

Service

4.1 Glossary

Active Customers

We define active customers as the number of customers who have placed at least one order in the last 12 months during the reporting period, irrespective of cancellations or returns.

Adjusted EBIT

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

Adjusted EBITDA

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

Average Basket Size

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

Average Orders per Active Customer

We define the average orders per active customer as the number of orders in the last 12 months of the reporting period, divided by the number of active customers.

Capex

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

Corporate Responsibility

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

EBIT

EBIT is short for earnings before interest and taxes.

EBITDA

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

EBIT Margin

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

Fashion Verticals

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

Fast Fashion

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

Free Cash Flow

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

Gross Merchandise Volume (GMV)

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

Mobile Visit Share (As % of Site Visits)

We define the mobile visit share (as % of site visits) as the number of page views via m.sites, t.sites or apps divided by the total number of page views during the period in question.

Net Working Capital

We calculate net working capital as the sum of inventories and trade receivables less trade payables and similar liabilities.

Number of Orders

We define the number of orders as the number of orders placed by customers during the reporting period, irrespective of 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.

RAPEX

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

REACH

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

RMS

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

Site Visits

We define site visits as the number of series of page views from the same device and the same source (via websites, m.sites, t.sites or apps) during the relevant period. The series is considered ended when a page view is not recorded for longer than 30 minutes.

TENCEL® / Lyocell

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

4.2

GRI Index

GRI G4 Index

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Number	Disclosures	Page	Notes in case of omissions and further explanations
GRI 102: General disclosures			
	1. Organizational Profile		
102-1	Name of the organization	13, 83	
102-2	Activities, brands, products, and services	83	
102-3	Location of headquarters	83	
102-4	Location of operations	19, 33, 34, 83	
102-5	Ownership and legal form	13, 83	
102-6	Markets served	83	
102-7	Scale of the organization	17, 83	
102-8	Employee statistics	17	All employee figures reported do not include interns, working students and apprentices. Temporary staff helps us to manage especially high workloads. Those peak-times vary throughout the year, and the number of workers varies accordingly.
102-9	Supply chain	12, 24	
102-10	Significant changes to the organization and its supply chain during the reporting period	24	
102-11	Precautionary principles and approaches	14, 52	
102-12	Support for external initiatives	11, 24, 28, 29	
102-13	Membership of associations / initiatives	11, 16, 24, 25, 27, 29	
	2. Strategy		
102-14	Statement from senior decision-maker	8	
	3. Ethics and Integrity		
102-16	Values, principles, standards, and norms of behavior	16, 18, 24, 29	Additionally you find our Code of Ethics and Code of Conduct for Business Partners on our website.
	4. Governance		
102-18	Governance structure	11, 83	
	5. Stakeholder Engagement		
102-40	List of stakeholder groups		Please find an overview with further information in our annual report 2017 on p. 15
102-41	Collective bargaining agreements		Collective bargaining agreements apply to employment relationships in Finland.
102-42	Identifying and selecting stakeholders	11	Please find more detailed information in our annual report 2017 on p. 15
102-43	Approach to stakeholder engagement	11	Please find an overview with further information in our annual report 2017 on p. 15
102-44	Key topics and concerns raised		Pleasefind an overview with further information in our annual report 2017 on p. 15

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Number	Disclosures	Page	Notes in case of omissions and further explanations
	6. Reporting Practice		
102-45	Entities included in the consolidated financial statements	83	
102-46	Defining report content and topic boundaries	13	
102-47	List of material topics	13	The full list can be found in our annual report 2016 on p. 22.
102-48	Restatements of information		No restatements required.
102-49	Changes in reporting		No changes have occurred.
102-50	Reporting period		Jan 1 – Dec 31, 2018
102-51	Date of most recent report		March 1, 2018
102-52	Reporting cycle		Annual
102-53	Contact point for questions regarding the report	225	
102-54	Disclosures on reporting in accordance with the GRI Standards	13	
102-55	GRI content index	13	
102-56	External assurance		Our non-financial report including relevant key performance indicators (KPIs) was audited by Ernst & Young GmbH Wirtschaftsprüfungsgesellschaft, Stuttgart.
GRI 200: Economic Topics			
GRI 201: Economic Performance			
103-1/2/3	Management approach	93, 122	
201-1	Direct economic value generated and distributed	93, 122	
GRI 205: Anti-Corruption			
103-1/2/3	Management approach	50	
205-2	Communication and training about anti-corruption policies and procedures	51	
GRI 300: Environmental Topics			
GRI 301: Materials			
103-1/2/3	Management approach	23, 29, 35	
301-1	Materials used by weight or volume	28, 35	
301-2	Recycled input materials used	28, 35	
301-3	Reclaimed products and their packaging materials	36	

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Number	Disclosures	Page	Notes in case of omissions and further explanations
GRI 302: Energy			
103-1/2/3	Management approach	33	
302-1	Energy consumption (within the organization)	34	
GRI 303: Water			
103-1/2/3	Management approach	28, 29	
303-1	Water withdrawal by source	28, 29	We work with partners to assess water withdrawal in our supply chain.
GRI 305: Emissions			
103-1/2/3	Management approach	31, 34	
305-1	Direct (Scope 1) GHG emissions	32	
305-2	Energy indirect (Scope 2) GHG emissions	32	
305-3	Other indirect (Scope 3) GHG emissions	32, 34	
305-4	GHG emissions intensity	32, 35	We chose the number of orders as the denominator of the intensity ratio.
GRI 306: Effluents and Waste			
103-1/2/3	Management approach	36	
306-2	Waste by disposal method	36	
GRI 308: Supplier Environmental Assessment			
103-1/2/3	Management approach	29, 30	
308-1	Percentage of new suppliers that were screened using environmental criteria		In 2018, we included the ISO 14001 environmental protection standard as a mandatory requirement for all private labels logistic providers.
308-2	Negative environmental impacts in the supply chain and actions taken	25, 30	
GRI 400: Social Topics			
GRI 401: Employment			
103-1/2/3	Management approach	14, 20	
401-1	New employee hires and employee turnover by age, gender, and region	21	We do not consider regional aspects to be material and therefore do not track this dimension. Of most strategic relevance to us is voluntary turnover, which is why we focus on reporting this indicator.

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Number	Disclosures	Page	Notes in case of omissions and further explanations
GRI 402: Labor / Management Relations			
103-1/2/3	Management approach	20	
402-1	Minimum notice periods regarding operational changes		We observe all legal requirements regarding the involvement of employee representatives and endeavor to inform employees in a timely manner before operational changes. As far as collective bargaining agreements apply, we of course observe all their special regulations.
GRI 403: Occupational Health and Safety			
103-1/2/3	Management approach	18	
403-2	Types of injury and rates of injury, occupational diseases, lost days, and absenteeism, and number of work-related fatalities	19	We further improve our data collection processes in order to comply with all requirements of this indicator.
GRI 404: Training and Education			
103-1/2/3	Management approach	20	
404-2	Training programs	20	
GRI 405: Diversity and Equal Opportunity			
103-1/2/3	Management approach	16	
405-1	Diversity of governance bodies and employees	16, 17	
GRI 406: Non-Discrimination			
103-1/2/3	Management approach	16	
406-1	Incidents of discrimination and corrective actions taken		In order to protect the privacy of our employees the number of cases is handled confidentially.
GRI 407: Freedom of Association and Collective Bargaining			
103-1/2/3	Management approach	24, 25	
407-1	Operations and suppliers in which the right to freedom of association and collective bargaining may be at risk	25	We consider this indicator particularly relevant for suppliers of our private labels and therefore provide information in this context.
GRI 408: Child Labor			
103-1/2/3	Management approach	24, 25	
408-1	Operations and suppliers at significant risk for incidents of child labor	25	We consider this indicator particularly relevant for suppliers of our private labels and therefore provide information in this context.
GRI 409: Forced or Compulsory Labor			
103-1/2/3	Management approach	24, 25	
409-1	Operations and suppliers at significant risk for incidents of forced or compulsory labor	25	We consider this indicator particularly relevant for suppliers of our private labels and therefore provide information in this context.

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Number	Disclosures	Page	Notes in case of omissions and further explanations
GRI 412: Human Rights Assessment			
103-1/2/3	Management approach	24, 25	
412-1	Operations that have been subject to human rights reviews	25	We consider this indicator particularly relevant for suppliers of our private labels and therefore provide information in this context.
GRI 413: Local Communities			
103-1/2/3	Management approach	39	
413-1	Operations with local community engagement	39	We have implemented local community engagement programs, but we have not yet developed methodologies for impact assessment.
GRI 414: Supplier Social Assessment			
103-1/2/3	Management approach	24, 25	
414-1	New suppliers that were screened using social criteria	25	
414-2	Negative social impacts in the supply chain and actions taken	25	
GRI 416: Customer Health and Safety			
103-1/2/3	Management approach	24	
416-1	Assessment of the health and safety impacts of product and service categories		100% of product categories are assessed for risks and improvement possibilities e.g. regarding health and safety impacts by our Product Safety Teams.
GRI 418: Customer Privacy			
103-1/2/3	Management approach	51	
418-1	Substantiated complaints regarding breaches of customer privacy and losses of customer data		Our Legal Department maintains close contacts with the data protection authorities in Berlin concerning the processing of personal data. In 2018, we received inquiries from government agencies about nine cases for the entire Zalando group. The inquiries concern, for example, data information and deletion requests from customers or the receiving of advertising messages. German authorities are legally obliged to investigate customer complaints. A violation of the protection of personal data was reported in a case in which the data of individual employees was affected.

4.3

Financial Calendar 2019

Financial Calendar → 138

Date	Event
Thursday, May 2	Publication of the first quarter results 2019
Wednesday, May 22	Annual general meeting 2019
Thursday, August 1	Publication of the second quarter results 2019
Thursday, October 31	Publication of the third quarter results 2019

4.4

Imprint

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

The annual report is available in English. If there are variances, the German version has priority over the English translation. It is available for download in both languages at corporate.zalando.com/en/investor-relations.

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