Financial Statements and Combined Management Report 2019

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Content

Report of the Supervisory Board

The Supervisory Board from left to right:
Konrad Schäfers, Jørgen Madsen Lindemann, Mariella Röhm-Kottmann, Kelly Bennett, Cristina Stenbeck, Beate Siert, Anders Holch Povlsen, Alexander Samwer, Anthony Brew

Dear Shareholders,

In 2019, Zalando adopted fundamental strategies and initiatives that position the company even more strongly for the future, in terms of growth, social responsibility as well as diversity. In Q1 2019, Zalando revised its platform strategy and communicated its new vision: to become the starting point for fashion. The updated strategy has brought more clarity to the overall direction, and paves the way for long-term financial growth.

In line with its commitment to become a more sustainable company, Zalando introduced its new sustainability strategy do.More in October 2019. The strategy acknowledges that sustainability is key for future growth, as not only customers but also investors start to look for more sustainable choices.

Another topic that the Supervisory Board has strongly supported in recent months is the further devolpment of its diversity strategy. In 2019, the company set new targets and is now committed to reaching a balanced gender representation on the top six levels of leadership including the Supervisory Board and the Management Board by 2023. We believe that diversity is crucial in making better decisions and in creating a relevant experience for our diverse customer groups.

In 2019, the company grew its business strongly and profitably. We look forward to this year 2020 in which we will continue to grow the Zalando platform to best serve Zalando customers, employees, and shareholders.

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, material issues regarding financial, investment, personnel planning and the progress of business as well as risks and opportunities. Specifically, the Management Board consulted the Supervisory Board on the group's strategy. The Supervisory Board was directly involved in all material decisions. Transactions requiring approval were presented by the Management Board.

Further Information
Corporate Governance Report

Meetings of the Supervisory Board and Its Committees

The plenum of the Supervisory Board held six meetings in fiscal year 2019, the audit committee four, the remuneration committee three and the nomination committee five. In addition, the Supervisory Board passed six circular resolutions. The Supervisory Board and its committees also convened 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. Anders Holch Povlsen was unable to attend one meeting of the Supervisory Board and abstained from participating and recused himself from voting in two other meetings due to a conflict of interest. He was also prevented from attending one meeting of the nomination committee. The other 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 2019

	Tenure	Plenum	Audit committee	Remuneration committee	Nomination committee
Dominik Asam	May 2017 – May 2019	1 / 1	2 / 2	--	--
Kelly Bennett	Since May 2019	5 / 5	2 / 2	--	--
Anthony Brew	Since May 2018	6 / 6	--	--	--
Lothar Lanz	Chairperson, May 2016 – May 2019	1 / 1	2 /2	--	3 / 3
Jørgen Madsen Lindemann	Since May 2016	6 / 6	4 / 4	3 / 3	5 / 5
Anders Holch Povlsen	Deputy Chairperson, since December 2013	3 / 6	--	--	4 / 5
Shanna Prevé	May 2017 – May 2019	1 / 1	--	2 / 2	--
Mariella Röhm-Kottmann	Since May 2019	5 / 5	2 / 2	--	--
Alexander Samwer	Since December 2013	6 / 6	--	3 / 3	--
Konrad Schäfers	Since June 2015	6 / 6	4 / 4	--	--
Beate Siert	Since June 2015	6 / 6	--	3 / 3	--
Cristina Stenbeck	Chairperson, since May 2019	5 / 5	--	1 / 1	2 / 2

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 25, 2019, the Supervisory Board dealt with the financial statements, the consolidated financial statements for 2018 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 2018 and approved the consolidated financial statements for 2018 and the non-financial report 2018. It followed the proposal of the Management Board for the appropriation of profit for fiscal year 2018. In addition, the Supervisory Board adopted a resolution regarding its report for the fiscal year 2018, and dealt with the agenda for the annual general meeting 2019 as well as the funding of the Long Term Incentive (LTI 2018). The Supervisory Board also addressed the results of its 2018 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 22, 2019, the Supervisory Board dealt in particular with the new employee participation program of the company, the activation of equity settlement rights under the LTI

2018, the fulfilment infrastructure of the company and the (re-)election of the members of the Supervisory Board's committees.

At its extraordinary meetings on September 6, 2019 and on September 8, 2019, the Supervisory Board discussed strategic opportunities ahead of the group strategy discussion.

The ordinary meeting on September 30, 2019 was specifically devoted to the Zalando group strategy, the sustainability strategy and the diversity and inclusion initiative, which were presented by the Management Board and discussed in depth with the Supervisory Board members.

At its ordinary meeting on December 6, 2019, the Supervisory Board dealt primarily with the budget for the fiscal year 2020 and its new Rules of Procedure in compliance with the German Corporate Governance Code 2020[1]. The Management Board and the Supervisory Board jointly resolved on the declaration of conformity with the German Corporate Governance Code.

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 warehouse equipment for the fulfillment center of Zalando Lounge in Ludwigsfelde, the building of a fulfillment center in the Netherlands and the conclusion of a new cloud vendor contract.

Audit Committee

The audit committee analyzed the annual financial statements for 2018 and the consolidated financial statements for 2018, including the combined management report for 2018 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 2019. The audit committee regularly reviewed and discussed the focus of the audit, the status reports on GRC (Governance, Risk & Compliance) including data privacy, litigation and the work of the internal audit, the treasury reports and the approval of non-audit services. The audit committee was involved in the preparation of the Supervisory Board's proposal to the annual general meeting 2019 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 of the compensation system for the newly appointed Management Board members. Besides this, the remuneration committee addressed the development of the company's employee incentive programs as well as the executive position planning including compensation framework.

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.

1) The German Corporate Governance Code 2020 is expected to enter into force in March 2020.

Conflicts of Interest

Due to a conflict of interest, Supervisory Board member Anders Holch Povlsen decided to abstain from participating and recused from voting in two meetings in 2019. Apart from that, no conflicts of interest of any Supervisory Board member occurred in the context of the work of the Supervisory Board.

Training and Professional Development

The company supported the Supervisory Board members Mariella Röhm-Kottmann and Kelly Bennett upon their appointment with a face-to-face onboarding training including detailed onboarding materials, inter alia, regarding tasks, rights and duties of the Supervisory Board, set-up and internal organization, conflicts of interest and directors' dealings. Lothar Lanz as chairperson was briefed and trained in depth in a face-to-face session including relevant materials on the content and sequences of the governance roadshow and the role of a chairperson in such a roadshow as well as on the annual general meeting and the role of the chairperson at the annual general meeting. Further, the company provided the chairperson Cristina Stenbeck with comprehensive briefing material on (i) the duties of the two boards of a two-tier governance structure and (ii) applying the business judgement rule.

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 2019, 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 2020 and before they were finally attested. The annual financial statements for 2019 and the consolidated financial statements for 2019, 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

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 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 therefore approved and adopted the annual financial statements for 2019 and approved the consolidated financial statements for 2019 and the non-financial report 2019. 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 growth trajectory, financial planning, flexibility and strategy.

Further Information Consolidated Financial Statements

Corporate Governance

The annual declaration of conformity was issued by the Management Board and the Supervisory Board in December 2019. The complete text of the declaration can be found in 1.4.1. The declaration is made permanently available in the Corporate Governance section on the company's website.

More information on corporate governance can be found in the Corporate Governance Report and associated declaration. With regard to the remuneration structure for the members of the Management Board for fiscal year 2019 and to avoid repetition, please see the Remuneration Report.

Further Information
Corporate Governance Report

Personnel Matters

The term of office of the shareholder representatives in the Supervisory Board expired at the end of the annual general meeting on May 22, 2019. Lothar Lanz, Shanna Prevé and Dominik Asam did not seek re-election. The Supervisory Board would like to thank Lothar Lanz, Shanna Prevé and Dominik Asam for their valuable contributions to the work of the Supervisory Board and the trust-based cooperation.

The annual general meeting 2019 re-elected Jørgen Madsen Lindemann, Anders Holch Povlsen and Alexander Samwer and newly elected Cristina Stenbeck, Mariella Röhm-Kottmann and Kelly Bennett as members of the Supervisory Board. All members were elected until the end of the annual general meeting that resolves on the discharge for fiscal year 2020. Cristina Stenbeck was elected chairperson of the Supervisory Board and Anders Holch Povlsen was elected deputy chairperson of the Supervisory Board.

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 2019.

Berlin, February 25, 2020

Cristina Stenbeck

An overview in the Corporate Governance Report 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.

Further Information
Corporate Governance Report

1.1 Balance Sheet as of December 2019

Assets

IN EUR M		Dec 31, 2019	Dec 31, 2018
A.	**Fixed assets**		
I.	**Intangible assets**		
1.	Internally generated software	54.2	47.3
2.	Industrial rights and similar rights and assets and licenses in such rights and assets	11.9	12.4
3.	Prepayments and internally generated software under development	40.8	31.3
		106.9	91.0
II.	**Property, plant and equipment**		
1.	Buildings on thrid-party land	0.6	0.2
2.	Plant and machinery	14.5	3.2
3.	Other equipment, furniture and fixtures	40.7	30.1
4.	Prepayments and assets under construction	6.2	10.6
		62.1	44.2
III.	**Financial assets**		
1.	Shares in affiliates	791.9	519.0
2.	Loans to affiliates	487.1	0.0
3.	Equity investments	0.4	2.5
		1,279.4	521.4
		1,448.4	656.7
B.	**Current assets**		
I.	**Inventories**		
1.	Raw materials and supply	7.8	6.5
2.	Merchandise	1,020.4	701.0
3.	Prepayments	0.1	0.0
		1,028.2	707.4
II.	**Receivables and other assets**		
1.	Trade receivables	28.5	544.4
2.	Receivables from affiliates	654.2	356.2
3.	Other assets	116.3	135.4
		799.0	1,036.0
III.	**Securities**	121.9	430.4
IV.	**Cash on hand and bank balances**	440.5	448.9
		2,389.7	2,622.6
C.	**Prepaid expenses**	16.4	9.1
D.	**Deferred tax assets**	6.5	0.0
Total		**3,861.0**	**3,288.4**

Equity and Liabilities

IN EUR M	Dec 31, 2019	Dec 31, 2018
A. Equity		
I. Subscribed capital	252.8	250.7
Less nominal value of treasury shares Conditional capital: EUR 92.7m (prior year: EUR 93.6m)	–4.2	–2.8
	248.7	247.9
II. Capital reserve	1,199.4	1,157.2
III. Unappropriated profit	199.6	163.7
	1,647.7	1,568.8
B. Government grants	–0.0	0.0
C. Provisions		
1. Tax provisions	0.0	23.8
2. Other provisions	467.5	357.2
	467.6	381.0
D. Liabilities		
1. Prepayments received on account of orders	35.2	34.8
2. Trade payables	1,287.7	971.5
3. Liabilities to affiliates	293.5	181.1
4. Other liabilities thereof for taxes: EUR 81.3m (prior year: EUR 78.5m) thereof for social security: EUR 0.0m (prior year: EUR 0.1)	127.6	136.4
	1,744.0	1,323.8
E. Deferred income	1.8	6.7
F. Deferred tax liabilties	0,0	8.1
Total	**3,861.0**	**3,288.4**

2.1 Income Statement

Statement of Profit and Loss for the Year Ending December 31, 2019

IN EUR M	2019	2018
1. Revenue	6,391.0	5,338.5
2. Other own work capitalized	40.1	34.2
3. Other operating income thereof income from currency translation: EUR 46.8m (prior year: EUR 39.1m)	114.2	126.8
	6,545.3	5,499.5
4. Cost of materials		
a) Cost of raw materials, consumables and supplies and of purchased merchandise	–3,539.5	–3,038.4
b) Cost of purchased services	–9.8	–20.0
5. Personnel expenses		
a) Wages and salaries	–326.7	–294.1
b) Social security, pension and other benefit costs including old-age pensions: EUR 0.2m (prior year: EUR 0.1m)	–46.2	–40.4
6. Amortization of intangible assets and depreciation of property, plant and equipment	–57.9	–43.6
7. Other operating expenses thereof expenses from currency translation: EUR 37.2m (prior year: EUR 38.3m)	–2,457.4	–1,930.1
	–6,437.4	–5,366.7
8. Income from profit transfers	4.8	12.3
9. Expenses from transfer of losses	–10.2	–7.7
10. Other interest and similar income income derived from affiliates EUR 14.2m (prior year: EUR 8.9m)	31.9	19.5
11. Depreciation on financial assets	–31.1	–49.4
12. Interest and similar expenses	–27.7	–21.4
	–32.5	–46.7
13. Income taxes expenses resulting from changes in deferred taxes EUR 14.6m (prior year: EUR 8.4m)	–39.5	–52.8
14. Earnings after tax / net profit for the year	35.9	33.3
15. Unappropriated profit from the prior year	163.7	130.4
16. Unappropriated profit	**199.6**	**163.7**

3.1 Notes to the Financial Statements

3.1.1 General Disclosures on Content and Classification of the Financial Statements

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

The financial statements for the fiscal year were prepared in accordance with the accounting provisions for businessmen of Section 238 et seq. HGB and the supplementary provisions for public companies (Section 264 et seq. HGB). The provisions of the AktG ["Aktiengesetz": German Stock Corporation Act] in conjunction with Art. 61 EU CR 2157/2001 on preparing annual financial statements were also observed.

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

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

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

The accounting and valuation methods applied comply with the provisions of the HGB (Sections 238 to 263 HGB) as well as the relevant provisions of the AktG in conjunction with Art. 61 EU CR 2157/2001. Furthermore, the company observed the supplementary provisions governing the accounting and valuation methods that apply to large corporations (Sections 264 to 289f HGB).

The company has made use of the option pursuant to Section 248 (2) HGB to capitalize internally generated intangible assets and amortizes these assets if they have a limited life. Amortization is charged using the straight-line method over an estimated economic useful life of three years on average. The cost of internally generated intangible assets includes direct costs as well as a proportionate share of overheads.

Intangible assets purchased from third parties are recognized at acquisition cost and are amortized if they have a limited life. Amortization is charged using the straight-line method over an economic useful life of three to five years.

Property, plant and equipment are recognized at acquisition cost and depreciated. Depreciation of property, plant and equipment is charged pro rata temporis using the straight-line method. Depreciation is charged over the following useful lives:

Useful Lives

	Years
Leasehold improvements	7 – 15
Plant and machinery	6 – 20
Furniture, fixtures and office equipment	3 – 15

Low-value assets (acquisition or production cost of between EUR 250.01 and EUR 1,000.00) are recorded in a collective item and depreciated over five years. Assets with an acquisition cost not exceeding EUR 250.00 are expensed upon acquisition.

With regard to financial assets, equity investments are recognized at the lower of cost or market. The attributable values were calculated based on the capitalized earnings value of the respective interest in accordance with IDW AcP HFA 10.

Raw materials and supplies as well as merchandise are recognized at acquisition cost factoring in the weighted average pursuant to Section 240 (4) HGB or at fair value if it is lower (market prices). Apart from customary retention of title, no inventories have been pledged as security to third parties. Prepayments are stated at their nominal value.

Receivables and other assets are stated at their nominal value. Impairments in the value of trade receivables due from mail order customers are recognized using portfolio-based specific allowances calculated with the help of country-specific allowance rates based on how long they are past due and other factors with an impact on value.

Customer returns that had not yet been completely processed, but were under the control of the company by the reporting date, are deducted from receivables.

Other uncollectible receivables are written off in full individually.

Securities classified as current assets are recognized at acquisition cost or, if applicable, at the listed or market prices if they are lower on the reporting date in accordance with Section 253 (4) HGB.

Cash and cash equivalents are recognized at nominal value.

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

Deferred taxes stem from temporary differences between the carrying amounts of assets, liabilities, prepaid expenses and deferred income in the statutory accounts and their tax accounts and from unused tax losses. Deferred taxes are measured using a tax rate of 30.6% (prior year: 30.6%). This comprises corporate income tax, trade tax and the solidarity surcharge of ZALANDO SE including their dependent companies and trust companies. Deferred tax assets and liabilities are offset against each other.

Zalando granted options to management that entitle the beneficiaries to purchase shares in the company after working for the company for a certain period of time (equity-settled share-based payment awards). Zalando recognizes share-based payment awards in accordance with the provisions of IFRS 2 and recognizes the personnel expenses incurred in the fiscal year at an equal amount in the capital reserve under equity.

The expenses for share-based payment awards are mainly calculated using graded vesting. This means that the plan expense gradually decreases constantly over the course of the vesting period.

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

Revenue recognition from the sale of goods was adjusted to reflect an appropriate provision for expected returns. The provision is made using the effective gross method. According to the gross method, in addition to the profit share attributable to returns, the cost of materials for expected returns is also deducted from revenue. In addition, a provision is also recognized for the handling costs of the expected returns.

Liabilities are recorded at the settlement value.

Liabilities from the sale of gift vouchers are recorded in the full amount upon receipt and adjusted to reflect the estimated utilization over time.

The company controls the liquidity risk by means of ongoing planning and monitoring of liquidity. To optimize the terms of payment, reverse factoring agreements have been entered into with various suppliers and with factors. Under these agreements, the factor purchases the respective supplier receivables due from Zalando. They are disclosed under trade payables on the face of the balance sheet.

Deferred income includes payments received prior to the reporting date that relate to income for a particular period after this date.

Receivables and liabilities in foreign currency are translated at the mean closing rate in accordance with Section 256a HGB. The realization principle (Section 252 (1) No. 4 Clause 2 HGB) and cost method (Section 253 (1) Clause 1 HGB) have been applied for receivables and liabilities with a remaining period of more than one year.

ZALANDO SE strategically counters foreign exchange risks. For this purpose, foreign exchange risks from future purchases in USD and GBP as well as future sales in foreign currency in CHF, GBP, NOK, PLN CZK and SEK were hedged. Under the hedging concept set out by management, ZALANDO SE uses portfolio hedges for some pending transactions for purchasing goods.

Derivative financial instruments with matching amounts and maturities were used as hedges. The hedging instruments have a term of up to fourteen months. The derivative financial instruments likewise comprise pending transactions. Forward exchange contracts and the corresponding cash flows from orders qualify as hedges as defined by Section 254 HGB.

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

The market value of the forward exchange contracts is based on the ECB reference rates taking into account the forward discounts and premiums customary for the market. If ineffectivities are identified, the negative market value of the corresponding derivative financial instrument is recorded in the provision for potential losses through profit or loss. The positive market value of the corresponding instruments is not recognized.

Following receipt of the invoice, changes in the value of the trade payables resulting from the orders are hedged for purchases in foreign currency. For sales in foreign currency, the resulting trade receivables are hedged following delivery to the customer.

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

3.1.3 Notes to the Balance Sheet

Fixed Assets

The development of the individual fixed asset items, including depreciation and amortization for the fiscal year, is shown in the statement of changes in fixed assets (attachment A to these notes).

Development costs for internally generated intangible assets of EUR 55.2m (prior year: EUR 34.2m) were capitalized in the fiscal year. As in the prior year, development costs were solely incurred for the development of software. Research costs, which are not material, were directly expensed.

The loan agreements with subsidiaries of ZALANDO SE were renewed in fiscal year 2019. These loans to affiliates have been recognized as fixed financial assets in 2019 due to the new terms, which are now long-term.

List of Shareholdings Classified as Fixed Financial Assets

The company held shareholdings in the following affiliates and equity investments as of December 31, 2019:

List of Shareholdings

No.	Company	Company domicile	Currency
Subsidiaries			
1	zLabels GmbH[2]	Berlin	EUR
2	Zalando Operations GmbH	Berlin	EUR
3	Zalando Logistics SE & Co. KG[3]	Brieselang	EUR
4	Zalando Logistics Mönchengladbach SE & Co. KG[3]	Mönchengladbach	EUR
5	Zalando Logistics Süd SE & Co. KG[3]	Berlin	EUR
6	Zalando S.A.S.	Paris, France	EUR
7	Zalando Customer Care DACH SE & Co. KG[3]	Berlin	EUR
8	Zalando Customer Care International SE & Co. KG[3]	Berlin	EUR
9	Zalando Fashion Entrepreneurs GmbH[2]	Berlin	EUR
10	Zalando Lounge Service GmbH[2]	Berlin	EUR
11	Zalando Outlets GmbH[2]	Berlin	EUR
12	Zalando Ireland Ltd.	Dublin, Ireland	EUR
13	Zalando Finland Oy	Helsinki, Finland	EUR
14	Bread & Butter GmbH & Co. KG	Berlin	EUR
15	Portokali Property Development III SE & Co. KG[3]	Berlin	EUR
16	Zalando Studios Berlin GmbH	Berlin	EUR
17	Mobile Fashion Discovery GmbH	Berlin	EUR
18	Zalando Marketing Services GmbH[2]	Berlin	EUR
19	Bread & Butter Tradeshow Verwaltungs GmbH	Berlin	EUR
20	zLabels Trading Ltd.	Hongkong	HKD
21	zLabels China Trading Co. Ltd.	Dongguan, China	CNY
22	ifansho Holding GmbH	Berlin	EUR

	Share of equity held by[1]	Share in capital in % 2019	Net income / loss for 2019 (in EUR m)	Equity (in EUR m)
	Directly	100.0	-10.1	43.2
	Directly	100.0	-0.8	97.4
	Directly	99.0		
	2	1.0	8.1	63.6
	Directly	99.0		
	2	1.0	5.2	95.2
	Directly	99.0		
	2	1.0	3.0	79.0
	Directly	100.0	0.1	0.7
	Directly	99.0		
	2	1.0	0.6	2.0
	Directly	99.0		
	2	1.0	0.4	1.9
	Directly	100.0	0.1	0.0
	Directly	100.0	0.4	0.0
	Directly	100.0	2.1	0.3
	Directly	100.0	26.0	34.0
	Directly	100.0	10.8	15.4
	Directly	100.0	-0.2	3.1
	Directly	99.9		
	2	0.1	-0.1	10.8
	Directly	100.0	1.6	-0.2
	Directly	100.0	-0.1	-6.5
	Directly	100.0	2.2	15.0
	14	100.0	0.0	0.0
	1	100.0	-0.1	0.1
	20	100.0	0.3	0.9
	Directly	100.0	-7.1	2.6

No.	Company	Company domicile	Currency
23	nugg.ad GmbH	Berlin	EUR
24	Zalando Logistics Operations Polska sp. z o.o.[4]	Warsaw, Poland	PLN
25	Tradebyte Software GmbH[2]	Ansbach	EUR
26	Zalando Lounge Logistics SE & Co. KG[3]	Berlin	EUR
27	zLabels Trading Southern Europe S.L.U	Elche, Spain	EUR
28	zLabels LP GmbH	Berlin	EUR
29	Zalando Payments GmbH	Berlin	EUR
30	Zalando Digital Portugal, Unipessoal Lda	Lisbon, Portugal	EUR
31	Kickz Never Not Ballin' GmbH[4]	Munich	EUR
32	Zalando Beauty Store GmbH	Berlin	EUR
33	Zalando Lounge Logistics Polska sp. z o.o.	Warsaw, Poland	PLN
34	Anatwine Ltd.	Cheltenham, United Kingdom	GBP
35	Anatwine, Inc.	New Castle, Delaware, USA	USD
36	Zalando OpCo Polska sp. z o.o.[4]	Gluchow, Poland	PLN
37	zLabels Creation & Sales GmbH & Co. KG	Berlin	EUR
38	zLabels Platform Services GmbH & Co. KG	Berlin	EUR
39	Zalando Logistics Operations Italy S.R.L.	Bozen, Italy	EUR
40	Zalando Logistics Operations Netherlands B.V.	Amsterdam, Netherlands	EUR
41	Zalando Lounge Content Solutions SE & Co. KG[3]	Berlin	EUR
42	Zalando Customer Care Central Services SE & Co. KG[3]	Berlin	EUR
43	Zalando Outlet Stores GmbH & Co. KG	Berlin	EUR
44	Kickz.com GmbH	Berlin	EUR
45	Fashion Circle GmbH	Berlin	EUR
46	Zalando Logistics Services SE & Co. KG[3]	Berlin	EUR
47	Zalando BTD 003 GmbH	Berlin	EUR
48	Zalando BTD 007 SE & Co. KG[3]	Berlin	EUR

Share of equity held by[1]	Share in capital in % 2019	Net income / loss for 2019 (in EUR m)	Equity (in EUR m)
18	100.0	-1.3	1.4
2	100.0	4.6	68.4
Directly	100.0	-0.2	1.2
Directly	99.0		
2	1.0	0.6	7.1
1	100.0	0.0	0.0
1	100.0	0.0	0.0
Directly	100.0	5.4	163.8
Directly	100.0	1.3	2.9
Directly	100.0	-11.1	2.8
Directly	100.0	0.0	1.0
Directly	100.0	-1.2	34.5
Directly	98.5	-2.9	-15.5
34	100.0	0.0	0.0
2	100.0	-0.4	38.0
1	99.0		
28	1.0	0.5	2.1
1	99.0		
28	1.0	0.2	2.3
Directly	100.0	-0.9	84.2
Directly	100.0	-0.7	17.3
Directly	99.0		
10	1.0	0.3	1.6
Directly	99.0		
2	1.0	0.0	1.5
11	99.0		
2	1.0	4.3	8.4
31	100.0	0.0	0.0
Directly	100.0	0.0	0.0
Directly	99.0		
2	1.0	0.0	0.0
Directly	100.0	0.0	0.0
Directly	99.0		
2	1.0	0.0	0.0

Associated companies

49	Le New Black S.A.S.[5]	Paris, France	EUR
50	FashionTrade.com B.V.[6]	Amsterdam, Netherlands	EUR

1) The number refers to the number of the company
2) Net income 2019 before profit transfer
3) ZALANDO SE is general partner
4) As of Dec 31, 2018
5) As of Jun 30, 2019
6) As of Jul 31, 2019

	23	33.8	0.0	0.0
	23	50.0	-5.2	0.6

Inventories

Inventories include goods, primarily containing shoe and textile product groups, as well as payments on account for goods as well as raw materials and supplies.

Receivables and Other Assets

Most of the receivables due from affiliates are trade receivables of EUR 371.4m (prior year: EUR 53.6m) and receivables from intercompany factoring of EUR 282.5m (prior year: EUR 0.0m). Since fiscal year 2019, some customer receivables have been transferred to Zalando Payments GmbH. These are therefore recognized as receivables from affiliates (in the prior year as trade receivables).

The loan agreements with subsidiaries of ZALANDO SE were renewed in fiscal year 2019. Due to the new terms of the agreement, these loans to affiliates are recognized as fixed financial assets.

Other assets mainly consist of VAT refund claims, receivables from time deposits, income tax refund claims, customs credit and creditors with a debit balance.

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

Equity

Subscribed Capital

As of the reporting date, 252,848,768 (prior year: 250,665,959) no-par value registered shares (bearer shares) are outstanding. Each share represents an imputed share of subscribed capital of EUR 1.00 and entitles the bearer to one vote at the company's annual general meeting.

During fiscal year 2019, subscribed capital was increased by a total of EUR 2.2m to EUR 252.8m by making partial use of conditional capital 2013 and 2014. Subscribed capital is fully paid in.

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

Authorized and Conditional Capital

	Amount in EUR m	Number of no-par value shares	Purpose
Authorized capital 2015	94.7	94,694,847	Cash or non-cash capital increases until June 1, 2020
Conditional capital 2013	9.4	9,446,929	Servicing of subscription rights from SOP 2013
Conditional capital 2014	2.7	2,738,261	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
Conditional capital LTI 2018	1.5	1,522,269	Servicing of subscription rights from LTI 2018

Treasury Shares

In January and February 2019, ZALANDO SE repurchased 1,456,174 treasury shares at an average price of EUR 26.63, which corresponds to a notional share in share capital of EUR 1,456,174 or 0.58% of share capital. The shares serve to hedge or service payment obligations from the new Long-Term Incentive 2018 for the Management Board of ZALANDO SE. In total, the company holds 4,167,899 treasury shares (notional share in share capital of EUR 4,167,899) as of December 31, 2019, and thus 1.65% of share capital.

Share-Based Payments

The company uses the Stock Option Plans (SOP) and Long Term Incentives (LTI) (SOP 2011, 2013, 2014, LTI 2018, 2019), Employee Incentive Plan (EIP) (2016, 2017, 2018, 2019) and Virtual Stock Option Plan (VSOP) (2017, 2018) as well as the ZOP for stock-based compensation, that was granted to the Management Board and employees.

The stock option plans are as follows:

Stock Option Plans

Program	Pending options	Weighted average exercise price (in EUR)	Waiting period
SOP 2011: Board	1,346,400	5.65	3 years
SOP 2013: Board	9,275,200	15.63	4 years
LTI 2018: Board	5,250,000	47.44	4 – 5 years
LTI 2019: Board	784,000	15.71	1-4 years
SOP 2014: employee	2,114,754	21.23	4 years
EIP 2016, 2017, 2018: employee	3,628,749	35.31	4 years
ZOP	353,565	14.84	2 years
VSOP 2017: employee	749,166	42.24	3 years
VSOP 2018: employee	500,000	29.84	2 – 5 years

Capital Reserve

The capital reserve amounts to EUR 1,199.4m (prior year: EUR 1,157.2m). In the fiscal year, the capital reserve included an amount of EUR 43.2m stemming from share-based equity-settled payment awards (prior year: EUR 35.2m). Furthermore, the capital reserve was increased by EUR 36.3m as part of a capital increase from conditional capital 2014. The capital reserve decreased by EUR 3.2m due to the issue of treasury shares under option programs.

The capital reserve includes an amount of EUR 147.4m (prior year: EUR 113.2m) pertaining to treasury shares.

Unappropriated Profit

Unappropriated Profit

IN EUR M	2019	2018
As of Jan 1	163.7	130.4
Net profit of the year	35.9	33.3
As of Dec 31	**199.6**	**163.7**

Voting Rights Notifications

Pursuant to Section 160 (1) No. 8 AktG, the company was notified of disclosures on equity investments in accordance with Section 33 (1) or (2) AktG and in accordance with Section 40 (1) WpHG ["Wertpapier-handelsgesetz": German Securities Trading Act].

Provisions

Tax provisions totaling EUR 0.0m (prior year: EUR 23.8m) relate to income taxes.

Other provisions totaling EUR 467.5m were recognized (prior year: EUR 357.2m). They primarily relate to outstanding invoices for fulfillment expenses (EUR 148.5m), expected returns (EUR 145.8m), marketing expenses (EUR 90.3m), other outstanding invoices (EUR 33.7m) as well as personnel-related expenses (EUR 13.8m).

Liabilities

Under reverse factoring agreements, suppliers' claims against Zalando totaling EUR 394.5m were transferred to various factors as of December 31, 2019 (December 31, 2018: EUR 374.6m), EUR 394.5m thereof to banks (prior year: EUR 279.7m). They were disclosed under trade payables on the face of the balance sheet.

Liabilities to affiliates relate primarily to cash pooling liabilities EUR 139.7m (prior year EUR 117.7m) and trade payables EUR 153.8m (prior year: EUR 63.4m) as of the reporting date.

Other liabilities of EUR 127.6m (prior year. EUR 136.4m) relate mainly to VAT liabilities and liabilities related to gift vouchers.

As in the prior year, all liabilities are due in less than one year. The liabilities are not secured by liens or any other similar rights.

Deferred Taxes

Zalando discloses deferred tax assets and liabilities in the balance sheet as a net amount. This results in a net deferred tax asset of EUR 6.5m (prior year: net deferred tax liability of EUR 8.1m). The deferred tax assets of EUR 35.7m (prior year: EUR 18.6m) are mostly comprised of participation in subsidiaries, the valuations of current foreign currency receivables and payables (as a result of unrealized exchange rates) as well as the different valuations of provisions (such as restoration obligations, potential losses, vacation and share-based payment programs).

Deferred tax assets are counterbalanced by deferred tax liabilities of EUR 29.2m (prior year: EUR 26.8m) that mainly result from the capitalization of self-generated intangible assets.

Deferred taxes break down as follows:

Deferred Tax Assets and Liabilities

	Deferred tax assets		Deferred tax liabilities		Net balance	
IN EUR M	Dec 31, 2019	Dec 31, 2018	Dec 31, 2019	Dec 31, 2018	Dec 31, 2019	Dec 31, 2018
Intangible assets	0,0	0,0	– 24.9	– 23.8	– 24.9	– 23.8
Property, plant and equipment	11.4	4.5	– 1.1	– 0.9	10.3	3.7
Trade and other receivables	0.1	3.0	– 3.1	– 2.0	– 3.0	1.0
Provisions	7.5	4.7	– 0.1	– 0.1	7.4	4.6
Share based payments	16.7	6.4	0,0	0,0	16.7	6.4
Total	**35.7**	**18.6**	**– 29.2**	**– 26.8**	**6.5**	**– 8.1**
Netting	– 29.2	– 18.6	29.2	18.6	0,0	0.0
Total recognized deferred tax assets and liabilities	**6.5**	**0,0**	**0,0**	**– 8.1**	**6.5**	**– 8.1**

Contingent Liabilities as Defined by Section 251 HGB

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

Contingent Liabilties

IN EUR M	Dec 31, 2019	Dec 31, 2018
Contingent liabilities from rental guarantees	33.6	33.0
thereof to affiliates	(33.6)	(33.0)
Joint loan liabilities	5.6	8.4
thereof to affiliates	(5.6)	(8.4)
Contingent liabilities from payment guarantees	4.5	5.1
thereof to affiliates	(4.5)	(5.1)
	43.7	**46.5**

Furthermore, ZALANDO SE has entered into obligations towards the following companies to provide their subsidiaries within the group presented in the table with financial resources so that they are in a position to settle their liabilities from rental agreements mentioned below and to assume personal limited or unlimited liability where necessary.

Principal	Subsidiary	Agreement/Location
UBS Real Estate GmbH	Zalando Logistics SE & Co. KG	Rental agreement, Brieselang fulfillment space
High Bay Logistics 1 S.à r.l.	Zalando Logistics SE & Co. KG	Rental agreement, fulfillment space in Erfurt
High Bay Logistics 2 S.à r.l.	Zalando Logistics SE & Co. KG	Rental agreement, fulfillment space in Erfurt
Goodman Tumbleweed Logistics (Lux) S.à r.l.	Zalando Logistics Mönchengladbach SE & Co. KG	Rental agreement, fulfillment space in Mönchengladbach
Goodman Melanite Logistics (Lux) S.à r.l.	Zalando Logistics Mönchengladbach SE & Co. KG	Rental agreement, fulfillment space in Mönchengladbach
Goodman Cardinal Logistics (Lux) S.à r.l.	Zalando Logistics Süd SE & Co. KG	Rental agreement, fulfillment space in Lahr
DWS Alternatives GmbH sp. z o.o.	Zalando Logistics Operations Polska sp. z.o.o.	Rental agreement, fulfillment space in Szczecin (PL)
AlexandraLog PLC11 sp. z o.o.	Zalando OpCo Polska sp z.o.o.	Rental agreement, fulfillment space in Lodz (PL)
HE Z 2 sp z.o.o.	Zalando Lounge Logistics Polska sp z.o.o.	Rental agreement, fulfillment space in Olsztynek (PL)
Prelios SGR S.p.A.	Zalando Logistics Operations Italy S.r.l.	Rental agreement, fulfillment space in Verona (IT)
ULP Bleiswijk A B.V.	Zalando Logistics Operations Netherlands B.V	Rental agreement, fulfillment space in Bleiswijk (NL)
VGP Park Berlin 3 S.à r.l.	Zalando Lounge Logistics SE & Co. KG	Rental agreement, fulfillment space in Ludwigsfelde
LOGIX V S.à r.l.	Zalando Lounge Logistics SE & Co. KG	Rental agreement, fulfillment space in Ludwigsfelde
BEOS Corporate Real Estate Fund Germany III	Zalando Lounge Content Solutions SE & Co. KG.	Rental agreement, office space in Berlin
Nordea Bank	Zalando Finland Oy	Rental agreement, office space in Helsinki (FIN)
Friday Street Inc. Limited	Anatwine Limited	Rental agreement, office space in Cheltenham (UK)
Orchestra Platform Limited	Zalando Ireland Limited	Rental agreement, office space in Dublin (IRL)

Furthermore, ZALANDO SE has entered into obligations towards the following companies to provide their subsidiaries within the group presented in the table with financial resources so that they are in a position to settle their liabilities from agreements mentioned below and to assume personal limited or unlimited liability where necessary.

Principal	Subsidiary	Agreement/Location/Purpose
Arval Service Lease - Aluguer e Gestao Automovel, S.A.	Zalando Digital Portugal, Unipessoal Lda	Car lease agreement
Lufthansa AirPlus Servicekarten GmbH	zLables Trading Limited	AirPlus company account
KNAPP AG	Zalando Logistics Operations Netherlands B.V.	Contract for work for trades in the fulfillment space in Bleiswijk (NL)
TGW Systems Integration GmbH	Zalando Logistics Operations Italy S.r.l.	Contract for work for trades in the fulfillment space in Nogarolle Rocca/Verona (IT)
Dürkopp Fördertechnik GmbH	Zalando Logistics Operations Italy S.r.l.	Contract for work for trades in the fulfillment space in Nogarolle Rocca/Verona (IT)
Schenker Deutschland AG	zLabels GmbH	Agreement on logistic services
Agenzia delle Entrate – Bolzano (IT)	Zalando Logistics Operations Italy S.r.l.	VAT refund
Fiege Logistics Italia Srl	Zalando Logistics Operations Italy S.r.l.	Service agreement at fulfillment space in Verona (IT)
Fiege XXXL	Zalando Logistics SE & Co. KG	Service agreement at fulfillment space in Brieselang

In addition, ZALANDO SE guaranteed Swiss Re International SE to hedge all claims from the surety insurance policies of Zalando Payments GmbH with Swiss Re International SE and the bank guarantees of a maximum amount of EUR 210m issued as part of this surety insurance policy.

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

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

There were other financial obligations of EUR 197.8m (prior year: EUR 218.0m) (thereof to affiliates: EUR 0.0m (as in the prior year)) as of the reporting date.

These obligations relate to the following items:

Other Financial Obligations

IN EUR M	
Rental agreements	197.1
Lease agreements	0.7
Total	**197.8**

Rental and lease agreements have a residual term of up to 11 years.

There are also other financial obligations from purchase obligations for merchandise from the 2020 spring /summer season as of the reporting date.

Derivative Financial Instruments

As of the reporting date, forward exchange contracts totaled EUR 1,840.2m (prior year: EUR 1,586.2m), some of which displayed a positive market value of EUR 7.1m (prior year: EUR 8.2m) while others displayed a negative market value of EUR 32.1m (prior year: EUR 15.4m).

The option to account for hedges was exercised in the following cases as of the reporting date: the gross method was used to combine trade payables in USD and GBP of EUR 11.9m (prior year: EUR 32.7m) with forward exchange contracts totaling EUR 11.9m (prior year: EUR 32.7m) (positive market value: EUR 0.3m (prior year: EUR 0.2m), negative market value: EUR 0.0m (prior year: EUR 0.2m)) in several portfolio hedges in order to hedge the currency risk. The effectiveness is measured prospectively using the critical terms match method and retrospectively using the dollar offset method. All value changes in derivatives are expected to be fully compensated in the future, as the critical features of underlying hedged items and hedging instruments match. These market values are reported in the balance sheet under other assets and other liabilities.

The net method was used to combine receivables from the sale of goods to customers in CHF, NOK, PLN, GBP and SEK with a volume of EUR 125.6m (prior year: EUR 106.8m) with forward exchange contracts totaling EUR 125.6m (prior year: EUR 106.8m) (positive market value: EUR 0.3m (prior year: EUR 1.8m); negative market value: EUR 4.3m (prior year: EUR 0.9m)) in several portfolio hedges in order to hedge the currency risk. The effectiveness is measured prospectively using the critical terms match method and retrospectively using the dollar offset method. All value changes in derivatives are expected to be fully compensated in the future, as the critical features of underlying hedged items and hedging instruments match.

The net method was used to combine expected sales of goods to customers in CHF, GBP, NOK, PLN, CZK and SEK with a volume of EUR 1,398.6m (prior year: EUR 1,144.5m) with forward exchange contracts totaling EUR 1,398.6m (prior year: EUR 1,144.5m) (positive market value: EUR 0.7m (prior year: EUR 6.3m); negative market value: EUR 26.9m (prior year: EUR 12.4m)) in several portfolio hedges in order to hedge the currency risk. The effectiveness is measured prospectively using the critical terms match method and retrospectively using the dollar offset method. All value changes in derivatives are expected to be fully compensated in the future, as the critical features of underlying hedged items and hedging instruments match.

The net method was used to combine expected orders of goods to customers in USD and GBP with a volume of EUR 156.3m (prior year: EUR 161.3m) with forward exchange contracts totaling EUR 156.3m (prior year: EUR 161.3m) (positive market value: EUR 4.1m (prior year: EUR 0.8m); negative market value: EUR 0.4m (prior year: EUR 0.9m)) in several portfolio hedges in order to hedge the currency risk. The effectiveness is measured prospectively using the critical terms match method and retrospectively using the dollar offset method. All value changes in derivatives are expected to be fully compensated in the future, as the critical features of underlying hedged items and hedging instruments match.

In addition, CHF, NOK, PLN, SEK, USD and GBP forward exchange contracts intended for subsidiaries or for short-term hedging purposes have been agreed upon and are therefore not included in any valuation unit within the meaning of Section 254 HGB. These forward exchange contracts have a volume of EUR 147.8m (previous year: EUR 140.9m) (positive market value: EUR 1.8m (previous year: EUR 0.1m), negative market value: EUR 0.4m (previous year: EUR 1.3m)). A provision for potential losses has been recognized.

3.1.4 Notes to the Income Statement

Revenue

In fiscal year 2019, around 49% of revenue related to the Germany/Austria/Switzerland (DACH region) (see following table).

Revenue by Geographical Region

IN EUR M		2019		2018	Change
DACH*	2,935.5	45.93%	2,604.5	48.8%	331.0
Rest of Europe**	3,455.5	54.1%	2,734.0	51.2%	721.5
ZALANDO SE	**6,391.0**	**100%**	**5,338.5**	**100%**	**1,052.5**

*) As in fiscal year 2018, DACH countries include Germany, Austria and Switzerland
**) Rest of Europe countries include the Netherlands, France, Italy, the UK, Poland, Belgium, Sweden, Finland, Denmark, Spain, Norway, Luxembourg, Ireland and the Czech Republic as in fiscal year 2018

Revenue comprises the sale of merchandise (EUR 5,793.8m), the provision of third-party services (EUR 477.9m), as well as revenue from intercompany charges (EUR 119.3m).

Income and Expenses Relating to Other Periods

Other income comprises income relating to other periods of EUR 22.0m (prior year: EUR 15.1m), mainly from the reversal of provisions. Other expenses comprise expenses relating to other periods of EUR 2.3m (prior year: EUR 0.2m).

Income Taxes

Income taxes include the deferred taxes and current income taxes paid or payable. They comprise trade tax, corporate income tax and solidarity surcharge. As in the prior year, the statutory corporate income tax rate, including solidarity surcharge, for the assessment period 2019 in Germany was 15.8%. The applicable trade tax rate was 14.8% as in the prior year.

Current and deferred taxes are presented in the following table.

Current and Deferred Taxes

IN EUR M	Jan 1 – Dec 31, 2019	Jan 1 – Dec 31, 2018
Deferred taxes	14.6	8.4
Current taxes	– 54.1	– 61.2
Total	**– 39.5**	**– 52.8**

Restrictions on Distribution Pursuant to Section 268 (8) HGB

The recognition of internally generated intangible assets less the deferred tax liabilities recognized thereon and the excess of deferred tax assets over deferred tax liabilities result in a restricted amount of EUR 83.8m (prior year: EUR 66.9m).

3.1.5 Other Notes

Number of Employees

An annual average of 4,531 (prior year: 4,348) persons were employed by the company in the fiscal year:

Average Number of Employees

Commercial	1,481
Technology	1,538
Others	1,512
Total	**4,531**

Group Affiliation

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

Audit Fees

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

Subsequent Events

No further significant events occurred after the end of fiscal year 2019 which could materially affect the presentation of the financial performance and position of the company.

Members of the Supervisory Board

Members of the Supervisory Board

Supervisory Board	Profession	Supervisory Board member since
Dominik Asam (Member until May 22, 2019)	Chief Finance Officer Infineon Technologies AG, Munich, Germany (until March 2019) Chief Finance Officer Airbus SE (since April 2019)	May 31, 2017
Kelly Bennett (Member since May 22, 2019)	Chief Marketing Officer Netflix, Inc. (until July 2019), Advisor of the CEO of Spotify and Microsoft Xbox (since October/August 2019)	May 22, 2019
Anthony Brew	Employee of Zalando Ireland Ltd. (Digital Experience)	May 22, 2019
Lothar Lanz (Member and Chairman of the Supervisory Board until May 22, 2019)	Member of various supervisory boards	February 10, 2014
Jørgen Madsen Lindemann	Chief Executive Officer and President of Modern Times Group MTG AB, Klampenborg, Denmark	May 31, 2016
Anders Holch Povlsen	Chief Executive Officer of the Bestseller-Group, Brande, Denmark	December 12, 2013
Shanna Prevé (member until May 22, 2019)	Managing Director Business Development for the Google Consumer Hardware Group, San Francisco, USA (California)	May 31, 2017
Mariella Röhm-Kottmann (member since May 22, 2019)	Senior Vice President, Head of Corporate Accounting of ZF Friedrichshafen AG	May 22, 2019
Alexander Samwer	Independent internet entrepreneur, Munich, Germany	December 12, 2013
Konrad Schäfers	Employee of ZALANDO SE, Berlin, Germany (Process Excellence)	June 2, 2015
Beate Siert	Employee of ZALANDO SE, Berlin, Germany (Sourcing & Recruiting)	June 2, 2015
Cristina Stenbeck (Member and Chairwoman of the Supervisory Board since May 22, 2019)	Entrepreneur, investor and member of various administrative boards	May 22, 2019

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

According to the Articles of Association the members of the Supervisory Board received remuneration of EUR 0.8m in fiscal year 2019 (prior year: EUR 0.8m). The remuneration of the Supervisory Board members falls due after the annual general meeting in which the financial statements for the fiscal year for which the remuneration is paid or their approval is decided on.

Reference is also made to the remuneration report, which can be found in the corporate governance report and which is an integral part of the combined management report.

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

Current and Past Mandates of the Supervisory Board

Name of Supervisory Board member	Mandates pursuant to Section 125 (1) Sentence 5 AktG
Dominik Asam	Infineon Technologies Austria AG, Villach, Austria (member of the Supervisory Board until March 2019)
	Infineon Technologies Americas Corp., Delaware, USA (member of the Board of Directors until March 2019)
	Infineon Technologies Asia Pacific Pte., Ltd., Singapore (member of the Board of Directors until March 2019)
	Infineon Technologies China Co., Ltd., PRC (member of the Board of Directors)
	Airbus SAS, Directeur General Financier
	Airbus Canada Limited Partnership (member of the Board of Directors)
	Airbus Defence and Space GmbH (Chairman of the Supervisory Board)
Kelly Bennett	Netflix, Inc. (member of the Board of Directors until July 2019)
	Ancestry Information Operations Unlimited Company (operating under the name Ancestry.com) (member of the Board of Directors)
Anthony Brew	-
Lothar Lanz	Axel Springer SE, Germany (member of the Supervisory Board until April 2019)
	Bauwert AG, Germany (member of the Supervisory Board)
	Home24 SE, Germany (member of the Supervisory Board, chairman)
	TAG Immobilien AG, Germany (member of the Supervisory Board, deputy chairman)
	Dermapharm Holding SE, Germany (member of the Supervisory Board)
Jørgen Madsen Lindemann*	Modern Times Group MTG AB (member of the Board of Directors)
	Turtle Entertainment GmbH (member of the Advisory Board)
Anders Holch Povlsen**	Intervare A/S 25169158, Denmark (member of the Board of Directors, chairman)
	Nemlig.com A/S, Denmark (member of the Board of Directors, chairman)
	J.Lindeberg AB 556533-7085, Sweden (member of the Board of Directors)
	J.Lindeberg Holding AB, Sweden (member of the Board of Directors)
	J.Lindeberg IP HK Limited, Hong Kong (member of the Board of Directors)
	J.Lindeberg Holding (Singapore) Pte. Ltd., Singapore (member of the Board of Directors)
	JL Schweiz AG, Switzerland (member of the Board of Directors, chairman)
	North Coast 500 Limited, Inverness, UK (member of the Board of Directors)
Shanna Prevé	-
Mariella Röhm-Kottmann	ZF Services Espana, S.L., Spain (member of the Board of Directors)
	Compagnie Financière de ZF SAS (member of the Supervisory Board)
Alexander Samwer	Home24 SE, Germany (member of the Supervisory Board until June 2019)
Konrad Schäfers	-
Beate Siert	-

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

Name of Supervisory Board member	Mandates pursuant to Section 125 (1) Sentence 5 AktG
Cristina Stenbeck	Kinnevik AB (member of the Board of Directors until May 2019)
	Spotify Technology S.A., (member of the Board of Directors)
	GoEuro Corp. (operating under the name Omio), Delaware, USA (member of the Board of Directors)
	Verdere S.à. r.l., Luxembourg (member of the Board of Directors)
	Camshaft S.à. r.l., Luxembourg (member of the Board of Directors)
	Ameriana S.à. r.l., Luxembourg (member of the Board of Directors)
	Ameriana AB, Stockholm, Sweden (member of the Board of Directors)
	Björkö Gård AB, Stockholm, Sweden (member of the Board of Directors)
	Three Daughters S.à. r.l., Luxembourg (member of the Board of Directors)
	CS Stiftelse för Nästa Generation, Stockholm, Sweden (member of the Board of Directors)
	Camsten AB, Stockholm, Sweden (member of the Board of Directors)
	Camshaft Skog AB, Stockholm, Sweden (member of the Board of Directors)
	Äggsjöns Vildmark AB, Stockholm, Sweden (member of the Board of Directors)
	House of Kraft AB, Stockholm, Sweden (member of the Board of Directors)

Members of the Management Board

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

Members of the Management Board

Management Board	Profession
Robert Gentz	Management Board member
David Schneider	Management Board member
Rubin Ritter	Management Board member
James Freeman II	Management Board member
David Schröder	Management Board member

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

Current and Past Seats of the Management Board

Name of Management Board member	Mandates pursuant to Section 125 (1) Sentence 5 AktG
David Schneider	Trivago N.V., Germany (member of the Supervisory Board, until October 2019)
Robert Gentz	-
Rubin Ritter	-
James Freeman II	Zalando Digital Portugal, Unipessoal Lda., Portugal (member of the Board of Directors) Zalando Finland Oy, Finland (member of the Board of Directors) Zalando Ireland Ltd., Ireland (member of the Board of Directors)
David Schröder	Zalando Logistics Operations Italy S.R.L, Italy (member of the Board of Directors) Zalando Logistics Operations Polska sp. z o.o., Poland (member of the Board of Directors) Zalando OpCo Polska sp. z o.o., Poland (member of the Board of Directors)

The members of the Management Board were employed on a full-time basis.

The Management Board received remuneration totalling EUR 1.7m in fiscal year 2019 (prior year: EUR 0.6m). Under the new long-term incentive program 2019, the new members of the Management Board were granted EUR 0.8m new options totaling with a fair value of EUR 13.1m each in fiscal year 2019.

Related Parties Disclosures

Related parties are legal or natural persons that can influence ZALANDO SE or that are subject to the control or significant influence of ZALANDO SE.

Transactions with related parties were mainly concluded with subsidiaries of ZALANDO SE. Business transactions with related parties are conducted at arm's length.

Appropriation of Profits

The Supervisory Board and the Management Board propose that the unappropriated profit of ZALANDO SE for the past fiscal year of EUR 199,623,724.68 will be carried forward in full.

Corporate Governance Declaration

The declaration of the Management Board and Supervisory Board on the German Corporate Governance Code pursuant to Sec. 161 AktG from December 2019 is published on the company's website (https://corporate.zalando.com/de/unternehmen/corporate-governance).

Signing of the 2019 Financial Statements

Berlin, February 25, 2020

The Management Board

Robert Gentz David Schneider Rubin Ritter James M. Freeman, II David Schröder

3.2 Attachment A to the Notes

Statement of Changes in Fixed Assets for Fiscal Year 2019

IN EUR M	Acquisition and production cost				
	Jan 1, 2019	**Additions**	**Disposals**	**Reclassifications**	**Dec 31, 2019**
Intangible assets					
Internally generated software	127.9	18.1	1.5	21.8	166.3
Industrial rights, similar rights and assets and licenses in such rights and assets	43.5	6.8	0.2	2.2	52.4
Prepayments and internally generated software under development	31.3	37.1	2.6	–24.0	41.8
	202.7	62.1	4.2	0,0	260.6
Property, plant and equipment					
Buildings on third-party land	0.5	0.5	0,0	0,0	1.0
Plant and machinery	4.8	12.6	0,0	0,0	17.4
Other equipment, furniture and fixtures	68.2	13.5	3.4	10.3	88.6
Prepayment and assets under construction	10.6	6.0	0,0	–10.3	6.2
	84.1	32.5	3.4	0,0	113.2
Financial Assets					
Shares in affiliates	568.7	293.6	0.5	0,0	861.8
Loans to affiliates	0,0	496.0	0,0	0,0	496.0
Equity investments	2.5	0,0	0,0	0,0	2.5
	571.1	789.6	0.5	0,0	1,360.2
	858.0	884.2	8.2	0,0	**1,734.0**

	Accumulated amortization, depreciation and write-downs					Carrying amounts	
	Jan 1, 2019	Additions	Disposals	Reclassifications	Dec 31, 2019	Dec 31, 2019	Dec 31, 2018
	80.6	32.8	1.3	0,0	112.1	54.2	47.3
	31.1	9.4	0,0	0,0	40.5	11.9	12.4
	0,0	1.4	0.3	0,0	1.0	40.8	31.3
	111.7	43.6	1.7	0,0	153.6	106.9	91.0
	0.3	0.7	0,0	–0.7	0.4	0.6	0.2
	1.6	1.4	0,0	0,0	2.9	14.5	3.2
	38.1	12.2	3.1	0.7	47.9	40.7	30.1
	0,0	0,0	0,0	0,0	0,0	6.2	10.6
	39.9	14.3	3.1	0,0	51.1	62.1	44.2
	49.7	20.1	0,0	0,0	69.8	791.9	519.0
	0,0	9.0	0,0	0,0	9.0	487.1	0,0
	0,0	2.0	0,0	0,0	2.0	0.4	2.5
	49.7	31.1	0,0	0,0	80.8	1,279.4	521.4
	201.3	89.0	4.7	0,0	**285.6**	**1,448.4**	656.7

3.3 Attachment B to the Notes

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

The company was notified pursuant to Section 33 (1) or (2) WpHG of shareholdings held in it and makes the following disclosures in accordance with Section 40 (1) WpHG:

Baillie Gifford & Co., Edinburgh, UK, informed us that its share of voting rights exceeded the threshold of 10% of the voting rights pursuant to Sections 33 and 34 WpHG on October 1, 2019 and came to 11.68% (corresponding to 29,515,750 voting rights) on this day. On this day, its share of voting rights through instruments according to Section 38 (1) No. (1) WpHG came to 0.10% (corresponding to 260,300 voting rights), its share of voting rights through instruments pursuant to Section 38 (1) No. 2 WpHG came to 0.010% (corresponding to 30,445 voting rights). Vanguard World Fund was named as shareholder holding 3% or more of the voting rights.

T. Rowe Price Group, Inc., Baltimore, Maryland, USA, informed us that its share of voting rights pursuant to Sections 33, 34 WphG fell below 5% on August 5, 2019 and came to 4.998050240115% (corresponding to 12,580,360 voting rights).

Mr. Anders Holch Povlsen informed us that his share of voting rights exceeded the threshold of 10% of the voting rights pursuant to Secs. 33 and 34 WpHG on September 4, 2018 and came to 10.02% (corresponding to 25,087,078 voting rights) on this day. Aktieselskabet was named as shareholder holding 3% or more of the voting rights on February 1, 2017.

Allianz Global Investors GmbH, Frankfurt/Main, Germany, informed us that its share of voting rights exceeded the threshold of 3% of the voting rights pursuant to Sections 33 and 34 WpHG and came to 3.02% (corresponding to 7,478,411 voting rights) on September 26, 2017. On this day, its share of voting rights through instruments according to Section 38 (1) No. 1 WpHG came to 0.04% (corresponding to 108,820 voting rights).

Zerena GmbH, Grünwald, Germany, informed us that its share of voting rights fell short of the threshold of 3% of the voting rights pursuant to Section 33 et. seq. WpHG and came to 2.99% (corresponding to 7,534,725 voting rights) on August 5, 2019.

Vanguard World Funds, Wilmington, Delaware, USA, informed us that its share of voting rights exceeded the threshold of 3% of the voting rights pursuant to Section 33 et. seq. WpHG on May 6, 2019 and came to 3.001% (corresponding to 7,534,785 voting rights) on this day. On this day, its share of voting rights through instruments according to Section 38 (1) No. 1 WpHG came to 1.169% (corresponding to 2,934,500 voting rights).

Kinnevik AB (publ), Stockholm, Sweden, informed us that its share of voting rights fell short of the threshold of 30% of the voting rights pursuant to Secs. 33 and 34 WpHG on September 17, 2019 and came to 25.83% (corresponding to 65,297,800 voting rights) on this day. Kinnevik Internet 1 AB was named as shareholder holding 3% or more of the voting rights.

BlackRock, Inc., Wilmington, Delaware, USA, informed us that its share of voting rights exceeded the threshold of 3% of the voting rights pursuant to Sections 33 and 34 WpHG on 17 January 2020 and came to 3.02% (corresponding to 7,633,655 voting rights) on this day. On this day, its share of voting rights through instruments according to Section 38 (1) No. (1) WpHG came to 0.10% (corresponding to 260,300 voting rights), its share of voting rights through instruments pursuant to Section 38 (1) No. 2 WpHG came to 0.010% (corresponding to 30,445 voting rights).

4.1 Background to the Group

4.1.1 Business Model

Zalando is a European online fashion and lifestyle platform. The Berlin-based company offers its customers a one-stop shopping experience with an extensive selection of lifestyle articles including shoes, apparel, accessories, and beauty products, with free delivery and returns.

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

Zalando's assortment of more than 2,500 international brands ranges from popular global brands to fast-fashion and local brands and is complemented by private label products. Zalando's offering is extended and enhanced by Zalando Lounge, which offers registered members special offers at reduced prices. The brick-and-mortar outlet stores in Berlin, Frankfurt, Cologne, Leipzig, Hamburg, Hanover, Münster and Stuttgart opened between 2012 and 2019 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, Germany. Zalando's localized offering addresses the distinct preferences of its customers in each of the 17 European markets it serves: 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 eleven centrally located fulfillment centers allows Zalando to serve its customers throughout Europe. Zalando's management believes that the integration of fashion, operations and online technology provides the capability to deliver a compelling value proposition to both customers and fashion brand partners.

4.1.2 Group Structure

Governance and Control

The Zalando group is managed by its ultimate parent company, ZALANDO SE, which bundles all management functions and generates the vast majority of group revenues. In addition to the parent company, Zalando is comprised of 48 subsidiaries that operate, inter alia, in the areas of fulfillment, customer service, payments, product presentation, advertising, marketing, and private labels developed in-house. 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.

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

The Management Board of ZALANDO SE was extended to five members as of April 1, 2019, who are jointly responsible for managing the group. David Schneider (Co-CEO) continues to work closely with brand partners and leads Zalando's fashion offer. Robert Gentz (Co-CEO) took on marketing and sales, and continues to be responsible for human resources. Rubin Ritter (Co-CEO) assumes responsibility for strategy and communications. David Schröder joined the Management Board as Chief Financial Officer (CFO) and takes on responsibility for finance, operations and governance. Jim Freeman joined the Management Board as Chief Technology Officer (CTO), assuming responsibility for Zalando's product and technology strategy and execution.

Further Information
Corporate Governance Report

Consisting of nine members, the Supervisory Board advises the Management Board and monitors its management activities. The Supervisory Board is directly involved in decisions of fundamental importance to the company. In particular, it reviews the financial statements and management reports and it reports on the audit to the annual general meeting. Zalando's Supervisory Board represents long-term investors, employees and independent experts.

The remuneration of the Management Board and the Supervisory Board as well as the incentive schemes are detailed in the remuneration report. The remuneration report and takeover disclosures pursuant to Sections 289 (4) and 315 (4) HGB, which are components of the combined management report, are presented in the corporate governance report. The corporate governance report also includes the declaration of conformity.

Group Segments

ZALANDO SE's internal management structure is based on a sales channel perspective. Our main sales channel continues to be the Fashion Store (online shops of Zalando). The Offprice segment includes the sales channels Zalando Lounge, outlet stores and overstock management, and the other segments includes various emerging businesses.

Revenue and profitability generated with external business partners as well as the internal transactions between segments of Zalando are being reported to the chief operating decision maker as required by IFRS 8. Due to this, the segment reporting includes a reconciliation column to reconcile the segment figures (including internal and external transactions) to the consolidated group figures (showing only external transactions).

4.1.3 Corporate Strategy

We are a European online platform for fashion and lifestyle.

In our view customers prefer to shop on fewer online fashion destinations. For this reason, already in 2015, we decided to follow a platform strategy, as it allows us to meet our ambition to become the starting point for fashion for an increasing number of customers. While our platform approach is partner-inclusive, our strategic focus lies on building long-term relationships with our customers. This reflects our starting point objective, but also helps us identify areas we want to focus our efforts on to ensure our long-term success. We strive to offer our customers flawless choice, the best in fashion inspiration and advice, a tailored, seamless and trustworthy experience, a competitive convenience proposition and more transparency and awareness around sustainability. In 2019, we served products to over 31 million active customers, offering clothing, footwear, accessories, and beauty. We make more than 2,500 brands available on our platform, ranging from world-famous names to local labels, to our own private brands. Thanks to the work of around 14,000 employees, we inspire customers through websites and mobile applications across 17 countries, localized into 13 languages, supported by over 20 payment options, and with delivery from currently 11 logistics centers.

Our path to deliver on our customer promise is through our partners. Since our founding days, our relationships with partners have been a growth driver for Zalando. Today, these relationships are stronger than ever. We believe we helped many to enter the digital age of retail and subsequently transition into the mobile-first era. We believe that a relationship-oriented approach will make us their online fashion ally. We aim to give our partners more open access to our destinations and more services through which they can drive their own success. We want our partners to focus on their customers and empower them to serve them even better. To make this possible we grant access to a fashion ecosystem that reaches millions of customers across Europe, we provide business and consumer insights, technology and operations infrastructure, and tailor-made solutions that allow them to convey their brand proposition. And in our attempt to meet our partner's needs we constantly try to understand how we can improve our offer and jointly drive innovation.

Fashion Industry

With revenues of EUR 6.5 billion and more than 31 million active customers, we continue to capture market share across Europe. In 2019 we reached a market share of 1.6%, and count 4.5% of the European population as our customers. This shows how successful we have been in the past, but it also illustrates a significant opportunity for further growth. To continue growing, we need to monitor the European fashion and lifestyle industry, to be able to predict which specific market dynamics and consumer trends might impact our business.

Consumer Trends

The rise of e-commerce has changed the way customers shop for fashion. E-commerce has made shopping much easier, by moving the changing room to the consumers' home. It has however also brought some new challenges which are unique to online shopping. We believe for example that there is still room for improvement in areas such as fashion advice, sizing, outfit suggestion, curation of selection and instant gratification. With improved shopping experience and increased availability of information and technologies, consumers have become more demanding in terms of personalization, transparency and the possibility to shop in a seamless way across different sales channels. Beyond offering an improvement to offline, there are several changes to the status quo that could also have a large impact on us and fashion in general. Shoppers are increasingly aware of the impact of their choices and seek to reflect that awareness also in how they shop for fashion. There has been an increasing demand for sustainable fashion, ways to access goods without owning them or to access pre-owned articles. All of this leaves room to further improve our offer.

Partner Trends

We believe that contrary to Zalando who was born online, most fashion brands are still adapting to the challenges of ecommerce. We observe that brands are eager to partner with online players who understand how to succeed in the ecommerce space, and can help them meet customer needs, scale their business and at the same time convey their brand proposition.

The fashion industry is very dynamic with ever evolving consumer trends. Zalando constantly monitors the market to spot trends and turn them into actionable insights. Thanks to our large active customer base, strong technological capabilities, wide fulfillment network, direct relationships with partners and the ability to localize our offer, we are able to generate insights at scale and use these insights to continue to adapt and grow our platform business.

Our Platform Vision and Strategy

Our ambition is to become the starting point for fashion. As a platform, we are choosing to rely upon the collective talent of the fashion world instead of only our own because we believe such a partner-inclusive approach will enable customers to rely upon fewer online fashion destinations that offer greater choice and a more compelling experience. To significantly improve Zalando's appeal as European customers' starting point for their fashion needs, and help us sustain further growth, we will differentiate our destinations and services even more through strategic investments in our customer and brand partner propositions.

Strategic Investment Areas

Our ambitious target to become the starting point for fashion guides us to the areas of the platform ecosystem we need to invest in the future to build long-term relationships with our customers and further scale our platform business.

Building Long-Term Customer Relationships

Assortment

We aim to be the platform customers naturally gravitate towards when thinking about fashion; a place to shop, but also a destination for inspiration. Our mission is to become a one-stop shop for fashion customers by offering the most desirable and comprehensive assortment of any online fashion destination. In 2019, we focused on expanding our sustainability assortment and we currently offer over 24,000 items carrying the sustainability flag in the Fashion Store. To be able to inspire our customers, match them with the right selection, offer personalized content, and make sure they are not overwhelmed by the broad assortment, we will continue to invest in data science and machine learning and in our portfolio of value added services such as our style advice platform Zalon.

Convenience

We aim to make our customers' lives easier by offering an exceptional level of convenience tailored to fashion, from discovery and ordering articles on our online platform to delivery, return and payment. In 2019 we opened up our membership program Zalando Plus to all customers in Germany and further expanded our Zalando Premium Logistics platform to broaden our same- and next day coverage across key metropolitan areas.

Fashion Services and Experiences

To better cater to our customers' needs, we constantly build innovative fashion experiences and services. One such service is Wardrobe. Launched in 2018, Wardrobe ties into a more circular approach to fashion, allowing customers to digitize their wardrobe and to sell or buy clothes via a dedicated app. In 2019 we extended the life of over one million fashion items through Wardrobe.

Building and Scaling Our Platform Ecosystem

Partner Program

Leveraging our partners' assortment through the Partner Program helps us offer our customers an even broader choice. We will continue investing into scaling the Partner Program by innovating and strengthening our capabilities to enable brands to easily 'plug and play' their assortment onto the Zalando platform and reduce the time to online.

Zalando Marketing Services

Through our Zalando Marketing Services (ZMS) business, we offer digital technologies and services aiming to help our partners increase their reach, brand impact and better understand their customers' preferences. We will continue to invest in our ZMS proposition, by expanding our digital touchpoints, formats and improving automation.

Zalando Fulfillment Solutions

To drive customer satisfaction and make the Partner Program more attractive for our partners, we will continue investing into our Zalando Fulfilment Solutions (ZFS) business. Thanks to ZFS partners benefit from the scale and efficiency of our European logistics network, and can focus their efforts on their core business instead. To strengthen our collaborations with partners we will invest into additional features such as multi-channel fulfillment or Offprice integration.

Offprice
Thanks to our Offprice business we provide brands additional opportunities to manage excess inventory, by givinging them access to discount-oriented shoppers. We will continue to invest in both our online and offline channels, localizing our offer, scaling our logistics network and leveraging automation and data-driven technology solutions. In this context, in 2019 we launched our first fulfillment center in Olsztynek, (Poland) dedicated to the Offprice business.

Our do.MORE Strategy

In 2019 we turned the page and entered the next sustainability chapter for Zalando. We developed and launched our new sustainability strategy, which is anchored in our group strategy and our will to create deep customer relationships. Titled do.MORE, the strategy combines our long-term vision to be a sustainable fashion platform with a net-positive impact for people and the planet with specific commitments some of which we want to reach very quickly.

'Less bad' isn't good enough anymore. Having a net-positive impact means that we run our business in a way that gives back more to society and the environment than we take. This aspiration calls for us to continuously reduce and mitigate the negative impact our business may have on society and the environment, while we aim to increase and amplify the value we create not just for customers, brands and shareholders, but also for people more generally and the planet.

This is a long-term vision and a task for the decades ahead, but we've set ourselves a first set of ambitious commitments for the short- and mid-term. We will always start with improving our own business. We are taking a stand on climate change, use of resources and worker rights, while bringing our partners on the journey. We are styling with care to make it easier for customers to shop more sustainably. And we are experimenting and collaborating to shape a more circular future for fashion. This is how we will do more to move the fashion industry forward.

Our six targets are divided into three areas:

Take a stand

- From today onwards (24.10.19), our own operations and all deliveries and returns will be carbon neutral. We will set Science Based Targets in 2020.
- By 2023, we design our packaging to minimize waste and keep materials in use, specifically eliminating single-use plastics.
- By 2023, we have continuously increased our ethical standards and only work with partners who align with them.

Style with care

- By 2023, we generate 20% of our Gross Merchandise Volume (GMV) with more sustainable products.

Shape our future

- By 2023, we apply the principles of circularity and extend the life of at least 50 million fashion products.
- By 2023, we have supported 10,000 people in the workforce by providing skilling opportunities that match future work requirements.

4.1.4 Non-Financial Report

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[2] is provided in the separate section 1.2 Corporate Responsibility and Sustainability of the annual report.

2) corporate.zalando.com

4.1.5 Management System

Zalando's most important key financial performance indicators for corporate management are revenue, EBIT, adjusted EBIT and capex as well as EBIT margin and adjusted EBIT margin. Operating and free cash flows are also taken into account. Since 2019, Gross Merchandise Volume (GMV) is also part of the most key financial performance indicators, due to its increased relevance for the steering of the business. The Management Board steers the company at a consolidated group level.

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

— Site visits: Increasing site visits drive revenue growth through a higher number of orders and higher advertising revenue. Compared to the prior year, the number of site visits increased by 33.2% in 2019.
— Mobile visit share: 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 4.3 percentage points in 2019, rising from 79.3% in 2018 to 83.7%.
— 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 4.5m rising from 26.4m to 31.0m in 2019.
— Number of orders: In addition to revenue, the number of orders placed is a key performance indicator (KPI) for the management of the group. This indicator is monitored independently from the value of merchandise and is a key driver of growth. In 2019, the number of orders placed increased from 116.2m in 2018 to 144.9m.
— Average orders per active customer: The average number of orders placed by active customers during the last twelve months totaled 4.7 as of December 31, 2019 (prior year: 4.4). This KPI is an important indicator of the trust customers place in the company and is also influenced by customer age and shopping channel.
— Average basket size: Like 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 2019 from EUR 57.1 to EUR 56.6. It is influenced by assortment composition, customer age and shopping channel.

4.1.6 Research and Development

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

In 2019, the group recognized development costs of EUR 68.5m (prior year: EUR 54.9m), of which EUR 41.6m relates to assets under development (prior year: EUR 28.4m). The increase in development costs is attributable to new projects and enhancements needed for continued innovation, improving Zalando’s appeal to become the starting point for fashion.

Research costs were immaterial.

4.2 Report on Economic Position

- European and German internet retailing and online fashion sales continue to grow strongly.
- Zalando closes a successful fiscal year 2019
- EBIT stands at EUR 165.8m, the EBIT margin at 2.6%.
- Cash flow from operating activities reaches EUR 327.2m.

4.2.1 Macroeconomic and Sector-Specific Environment

www.euromonitor.com

The consumer inclination seen in previous years towards online shopping continued in 2019. Online fashion in Europe grew by 10.1%[3] closing with a trading volume of EUR 72.9bn[4]. This outperformed the fashion sector which posted a growth of 2.4%[5] at a trading volume of around EUR 430.9bn[6].

German online fashion sales increased by roughly 6.7%[7] in 2019 to a market size of about EUR 17.4bn[8]. On the other hand, fashion trading volumes stagnated, reporting an estimated growth rate of 0.6%[9].

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

Innovation and technology remain a fundamental driver of online consumption. Europe still has the highest internet penetration rate compared to other regions such as the Americas and Asia[10]. This fact, coupled with increasing online fashion penetration rates in the region, leads us to believe that online fashion will continue to grow.

The increased availability of smartphones and on-demand internet access is having a positive effect on online fashion consumption. Throughout Europe, consumers are increasingly using smart-phones for online shopping. As a result, mobile shopping is projected to grow by 15.6%[11] in 2020.

4.2.2 Business Development

Zalando closed a successful business year, achieved strong growth and improved profitability in 2019. Compared to 2018, the group reported 20.3% revenue growth in the period to EUR 6,482.5m (prior year: EUR 5,387.9m). The EBIT of EUR 165.8m reported by the group in 2019 (prior year: EUR 119.2m) corresponds to an EBIT margin of 2.6% (prior year: 2.2%).

Apparel remained Zalando's biggest product category, followed by shoes and sports. The customer base continued to grow strongly, reaching 31.0m active customers at the end of 2019 (26.4m at the end of 2018). 4,178.1m visits to the Zalando Fashion Store were counted in 2019 (3,137.2m in 2018), of which 83.7% were conducted from a mobile device (79.3% in 2018). Zalando's strategic focus lies on building long-term relationships with its customers. As in previous years, Zalando continued to invest significantly in its customer proposition, including assortment, convenience, fashion

3) Euromonitor, Europe excl. Russia, Germany
4) Ibid
5) Ibid
6) Ibid
7) Ibid
8) Ibid
9) Ibid
10) Statista 2019
11) Euromonitor, Europe excl. Russia

services and experiences. This has resulted in a steady increase in the average number of orders per customer per year to 4.7 (4.4 in 2018).

Zalando has also strengthened this positive development by deepening customer relationships with Zalando Plus, which is available for all customers in Germany. Zalando Plus customers already accounted for a 10% share of gross merchandise volume (GMV) in Germany.

Zalando continues to successfully scale its services for partners, as the platform business continues to gain traction. The strong growth of Zalando's Partner Platform was driven by brands intensifying their usage as well as by new partners. In 2019, about 35% of all Partner Program orders were fulfilled through Zalando Fulfillment Solutions (ZFS). The acquired e-money licence will further strengthen and expand Zalando Payments Solutions (ZPS) by improving payment transactions on the Zalando Platform.

Besides, Zalando continued to broaden its assortment by investing in sustainable fashion and premium assortment, by extending its Partner Program and by expanding cooperation with offline retailers. More than 1,500 offline stores are connected to the Zalando platform.

Zalando's 360° marketing agency Zalando Marketing Services (ZMS) offers integrated, data-driven marketing services for fashion and lifestyle brands via many different channels and advises our partners on how to address their customers in a target group-oriented manner. ZMS' services include brand marketing strategy development, campaign planning and production, influencer marketing and increasing product visibility through sponsorships. The price varies depending on the type and scope of the services booked. Zalando introduced the labelling of sponsored products in the summer of 2019.

In December, Zalando officially launched its online shopping club Zalando Lounge in the Czech Republic, extending its shopping club model to 14 European markets. At Zalando Lounge, Czech customers can enjoy discounts of up to 75 percent on more than 2,500 brands across different categories, including footwear and clothing for women, men, and kids, as well as accessories, sportswear, workout equipment and home goods. The shopping club model complements the Zalando Fashion Store with exclusive discounts for premium brands that are available for a short time only.

The offline outlet business also continued to grow in 2019. Zalando opened three new outlet stores during the year, in Münster, Stuttgart and Hanover, bringing the total number of stores to eight. Six more outlets are already planned in the following cities: Mannheim, Ulm and Constance will be opened in 2020, Munich, Nuremberg and Dusseldorf will follow by 2021.

Zalando further developed its operational footprint and added two new sites to its European logistics network in 2019, now comprising eleven fulfillment centers in five markets. In January, the new fulfillment center in Brunna, near Stockholm, Sweden, was officially inaugurated. The new Nordic fulfillment center is equipped with advanced automation technology to enable both fulfillment speed and efficiency. Combined with its strategic geographical location, the fulfillment center is intended to cut lead times in half for Nordic customers.

In October, Zalando's dedicated shopping club Zalando Lounge officially opened its first international fulfillment center in Olsztynek, Poland. In July 2018, the site celebrated its roofing ceremony, while first operations started in early March 2019. The fulfillment center is operated by a logistics service provider. In terms of automation technology, the facility features item sorters that sort single articles to the respective order, and an outbound sorter to direct orders to the right delivery destination.

In the summer of 2019, Zalando started construction of its first Dutch fulfillment center in Bleiswijk, near Rotterdam. The Bleiswijk fulfillment center will cater to customers in Western Europe, especially the Netherlands, Belgium, Luxembourg, France and the United Kingdom. The fulfillment center will feature the highest level of automation within Zalando's network and will create 1,500 jobs in the mid-term. The first parcels are set to be delivered from Bleiswijk in the summer of 2021.

In October 2019, Zalando launched its new sustainability strategy do.MORE, setting out our vision to become a sustainable fashion platform with a net-positive impact for people and the planet. We have combined this long-term vision with six specific commitments that we want to achieve by 2023.

4.2.3 Economic Situation

Financial Performance of the Group

The consolidated income statement for 2019 shows strong revenue growth and good profitability, while we continued to push forward our investments in customer experience as well as technology and operations infrastructure.

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

Condensed Consolidated Income Statement

Further Information Consolidated Statement of Comprehensive Income

IN EUR M	Jan 1 – Dec 31, 2019	As % of revenue	Jan 1 – Dec 31, 2018	As % of revenue	Change
Revenue	6,482.5	100.0%	5,387.9	100.0%	0.0pp
Cost of sales	–3,724.3	–57.5%	–3,107.0	–57.7%	0.2pp
Gross profit	**2,758.2**	**42.5%**	**2,280.9**	**42.3%**	**0.2pp**
Selling and distribution costs	–2,295.2	–35.4%	–1,899.2	–35.2%	–0.2pp
Administrative expenses	–298.9	–4.6%	–268.9	–5.0%	0.4pp
Other operating income	18.2	0.3%	18.7	0.3%	–0.1pp
Other operating expenses	–16.6	–0.3%	–12.3	–0.2%	0.0pp
Earnings before interest and taxes (EBIT)	**165.8**	**2.6%**	**119.2**	**2.2%**	**0.3pp**

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

Key performance indicators*

	Jan 1 – Dec 31, 2019	Jan 1 – Dec 31, 2018	Change
Site visits (in millions)	4,178.1	3,137.2	33.2%
Mobile visit share (as % of site visits)	83.7	79.3	4.3pp
Active customers (in millions)	31.0	26.4	17.1%
Number of orders (in millions)	144.9	116.2	24.8%
Average orders per active customer	4.7	4.4	6.5%
Average basket size** (in EUR)	56.6	57.1	–0.9%
Gross merchandise volume (GMV) (in EUR m)	8,207.5	6,637.8	23.6%
Revenue (in EUR m)	6,482.5	5,387.9	20.3%
EBIT (in EUR m)	165.8	119.2	39.1%
EBIT margin (as % of revenue)	2.6	2.2	0.3pp
Adjusted EBIT (in EUR m)	224.9	173.4	29.7%
Adjusted EBIT margin (as % of revenue)	3.5	3.2	0.3pp
EBITDA (in EUR m)	360.6	205.7	75.3%
EBITDA margin (as % of revenue)	5.6	3.8	1.7pp
Adjusted EBITDA (in EUR m)	419.7	259.9	61.5%
Adjusted EBITDA margin (as % of revenue)	6.5	4.8	1.7pp
Net working capital (in EUR m)	–147.7	–84.3	–75.2%
Operating cash flow (in EUR m)	327.2	212.8	53.8%
Capex (in EUR m)	–306.5	–278.4	10.1%
Free cash flow (in EUR m)	41.6	–13.8	400.8%

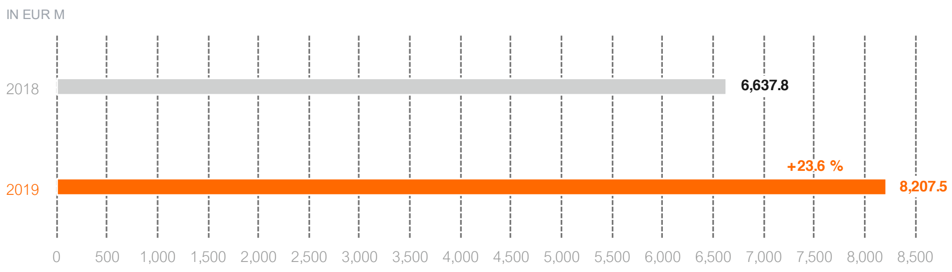
*) For an explanation of the key performance indicators, please refer to the glossary.
**) The calculation and definition of the average basket size was changed in 2019. It now consists of the GMV divided by the number of orders. In the prior-year period, it was calculated as transactional revenue divided by the numbers of orders. In the table above, the new definition and calculation method was applied for both the current and prior-year periods. Average basket size as per the prior-year definition is EUR 58.8 for FY 2019 and EUR 61.0 for FY 2018.

Zalando’s key performance indicators are revenue, EBIT, adjusted EBIT, capex, the number of active customers and the average number of orders per active customer. Since 2019, GMV has also been one of the key performance indicators due to its increased relevance for steering the business. The forecast for fiscal year 2020 can be found in section 2.5, Outlook.

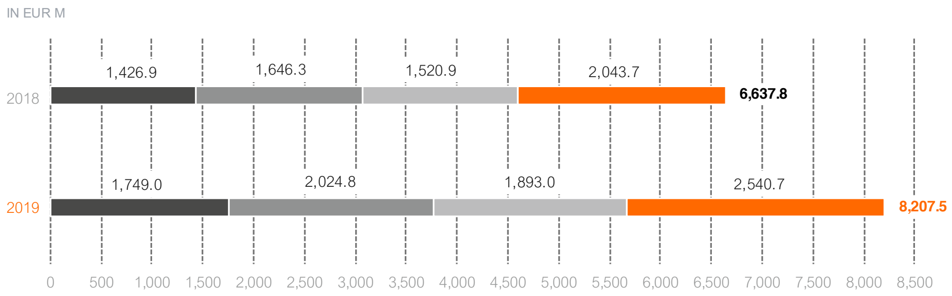
Initial application of IFRS 16 has affected EBIT, EBITDA, related margins and adjusted KPIs as well as the operating cash flow and the free cash flow reported for 2019. Effects are in line with the expectations prescribed in our 2018 annual report.

Development of Revenue and GMV[12]

Annual GMV Growth (2018 – 2019)



GMV by Quarter (2018 – 2019)



In 2019, GMV increased compared to the prior year by EUR 1,569.7m to EUR 8,207.5m. This corresponds to year-on-year GMV growth of 23.6%. The major drivers of the GMV growth in 2019 were an increase in our active customer base as well as an increase in the number of orders.

As of December 31, 2019, the group had 31.0 million active customers compared to 26.4 million active customers as of December 31, 2018. This corresponds to an increase of 17.1%. The number of orders, which increased by 24.8%, was driven in particular by a generally higher level of customer engagement as evidenced by a 33.2% increase in site visits. 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 4.3 percentage points to 83.7% in 2019.

The larger customer base ordered more frequently than in the corresponding prior year period with the average number of orders per active customer rising by 6.5%, triggered by continuous improvements in our customer experience as well as an increasing use of mobile devices. The average basket size decreased slightly in fiscal year 2019 from EUR 57.1 to EUR 56.6. Customers tend to shop more frequently, but with smaller basket size. In 2019, the introduction of a minimum order value in eight more countries has also supported the development of the average basket size.

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

12) The statements on the quarterly development of GMV are unaudited.

The strong growth of our Partner Program, which allowed us to offer our customers an even broader and more attractive assortment, led to an increased Partner Program share in GMV and also contributed to the strong increase of GMV.

Revenue increased by 20.3% or EUR 1,094.6m from EUR 5,387.9m to EUR 6,482.5m in 2019. The drivers behind revenue are the same as for GMV. Because of the strong growth of the Partner Program, the increase in GMV was higher than the increase in revenue, as the Partner program is fully reflected in the GMV metric while revenue only includes the commission income and service fees from partners.

The variance in GMV and 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 GMV and 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.

Development of EBIT

The group recorded EBIT of EUR 165.8m in 2019 (prior year: EUR 119.2m), which corresponds to an EBIT margin of 2.6% (prior year: 2.2%) and represents an increase of 0.3 percentage points. The increase in the EBIT margin is mainly driven by a higher gross margin which improved by 0.2 percentage points, the fulfillment cost ratio which improved by 0.5 percentage points, the administrative cost ratio which improved by 0.4 percentage points and the marketing cost ratio which increased by 0.7 percentage points.

Cost of sales rose by 19.9% year-on-year from EUR 3,107.0m to EUR 3,724.3m, resulting in a slightly improved gross margin by 0.2 percentage points from 42.3% to 42.5%, driven by better buying conditions and a positive impact from lower allowances of goods.

Selling and distribution costs rose by 20.8% year-on-year from EUR 1,899.2m to EUR 2,295.2m. This corresponds to an increasing ratio as a percentage of revenue from 35.2% in 2018 to 35.4% in 2019. Selling and distribution costs consist of fulfillment and marketing costs.

The fulfillment cost ratio as a percentage of revenue decreased by 0.5 percentage points from 27.9% in 2018 to 27.3% in 2019 mainly due to an improved utilization of our European logistics network, continued overall efficiency gains and better order economics. At the same time Zalando continues to build its European logistics network and to invest in the customer and brand proposition.

The marketing cost ratio rose by 0.7 percentage points to 8.1% primarily driven by conscious long-term oriented investments in personalized marketing to attract more customers and drive customer development.

Administrative expenses increased from EUR 268.9m in 2018 to EUR 298.9m in 2019, implying a decrease of 0.4 percentage points in proportion to revenue. The decrease in administration cost ratio was driven by a lower increase in personnel costs in proportion to the increase in revenues and serves as strong proof for our increasing operating leverage.

The EBIT margin increased by 0.3 percentage points in comparison to the prior year, from 2.2% in 2018 to 2.6% in 2019. In absolute terms, EBIT increased by EUR 46.6m from EUR 119.2m to EUR 165.8m. The main driver was the decrease of 0.5 percentage points in the fulfillment cost ratio, the decrease of 0.4 percentage points in the administration cost ratio and the increase of 0.2 percentage points in gross margin, which could overcompensate the increase of 0.7 percentage points in the marketing cost ratio. With a net income of EUR 99.7m, Zalando remains clearly profitable overall.

Adjusted EBIT

In order to assess the operating performance of the business, Zalando's 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.

Zalando recorded an adjusted EBIT of EUR 224.9m in 2019 (prior year: EUR 173.4m), which translates to an adjusted EBIT margin of 3.5% in 2019 (prior year: 3.2%).

In 2019, EBIT comprises expenses from equity-settled share-based payments of EUR 46.0m (prior year EUR 43.3m).

EBIT also included restructuring costs of EUR 13.1m incurred in connection with the reorganization of the private label business in Q1 2019 (thereof EUR 10.3m in cost of sales, EUR 2.4m in administrative expenses, and EUR 0.4m in marketing costs). These costs are adjusted for in the calculation of adjusted EBIT. In 2018, EBIT contained restructuring costs of EUR 10.9m that were incurred mainly in connection with the implementation of a new setup for the marketing department in Q1 2018.

As in 2018, EBIT contains no non-operating one-time effects to be adjusted in 2019.

Results by Segment

The condensed segment results for 2019 show a strong improvement in revenue for the Fashion Store and Offprice segments and a significant decrease in revenue in all other segments. While EBIT increased in Fashion Store, it decreased in Offprice and all other segments compared to the prior year period. The development of revenue and earnings reported by the segments of the Zalando group can be summarized as follows:

Segment Results of the Group 2019

IN EUR M	Fashion Store	Offprice	All other segments	Total	Recon-ciliation	Total Group
Revenue	5,964.9	659.4	252.3	6,876.6	–394.1	6,482.5
thereof intersegment revenue	280.5	0.0	113.6	394.1	–394.1	0.0
Earnings before interest and taxes (EBIT)	181.4	23.2	–39.4	165.2	0.6	165.8
Adjusted EBIT	219.9	27.7	–23.3	224.3	0.6	224.9

Segment Results of the Group 2018

IN EUR M	Fashion Store	Offprice	All other segments	Total	Recon-ciliation	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

Fashion Store Results by Region 2019

IN EUR M	DACH	Rest of Europe	Fashion Store
Revenue	2,897.2	3,067.7	5,964.9
thereof intersegment revenue	140.1	140.4	280.5
Earnings before interest and taxes (EBIT)	200.1	–18.7	181.4

Fashion Store Results by Region 2018

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

In 2019, revenue grew by 20.1% in the Fashion Store segment, by 32.6% in the Offprice and decreased by 43.3% in all other segments, compared to the prior year. The Fashion Store segment continued to generate the highest absolute level of revenue, although the Offprice segment shows the highest percentage increase in revenue. The revenue increase in the Fashion Store is mainly due to a strong growth in active customers and number of orders across all markets. The revenue increase in the Offprice segment is mainly due to Zalando Lounge's good performance in Germany and the growth in its younger markets Poland and Spain. The decrease in revenue in all other segments is caused by the reorganization of the private label business in Q1 2019. The private label business was restructured and under a new setup integrated into the Fashion Store segment from Q2 2019 onwards. Most revenue in all other segments was contributed by ZMS (Zalando Marketing Services) and Zalon.

The Fashion Store segment realized an EBIT margin of 3.0% in 2019, a slight increase of 0.7 percentage points compared to the prior year. This improvement mainly resulted from an improved gross margin as a result of better buying conditions and a lower fulfillment cost ratio due to higher warehouse utilization and efficiency. It was partly offset by a higher marketing cost ratio due to the conscious decision to invest in long-term personalized marketing measures to attract customers and drive customer development.

The Offprice segment recorded EBIT of EUR 23.2m with the EBIT margin decreasing from 6.5% in the prior year to 3.5% in 2019, mainly caused by higher fulfillment costs, especially logistic costs and higher administrative costs. The increase in those costs resulted from the entry into new markets and the ramp-up of a new fulfillment center.

All other segments recorded a decrease of 9.0 percentage points, resulting in an EBIT margin of -15.6% in 2019, mainly caused by the reorganization and shift of the private label business to the Fashion Store segment, partly compensated by the ongoing margin improvement of our emerging businesses.

Adjusted EBIT by Segment

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

Share-Based Compensation Expenses per Segment

IN EUR M	Jan 1 – Dec 31, 2019	Jan 1 – Dec 31, 2018	Change
Expenses for equity-settled share-based payment	**46.0**	**43.3**	**2.8**
Fashion Store	38.4	36.1	2.3
Off-price	4.5	2.8	1.7
All other segments	3.1	4.3	–1.2

EBIT furthermore includes the above-mentioned restructuring costs incurred in connection with the reorganization of the private label business in Q1 2019 with EUR 13.1m in all other segments. In the prior year period, EBIT also contained restructuring costs of EUR 10.0m in the Fashion Store segment, EUR 0.1m in the Offprice segment and EUR 0.8m in all other segments.

The Fashion Store segment realized an adjusted EBIT margin of 3.7% in 2019, which translates into an increase of 0.4 percentage points when compared to the prior year period. The Offprice segment recorded an adjusted EBIT margin of 4.2%, a decline of 2.9 percentage points in the adjusted EBIT margin compared to the prior year period. All other segments generated an adjusted EBIT margin of -9.2% in 2019, representing a decrease of 3.7 percentage points. The development in adjusted EBIT and adjusted EBIT margin resulted almost exclusively from the drivers described above for unadjusted EBIT.

Cash Flows

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

Condensed Statement of Cash Flows

IN EUR M	Jan 1 – Dec 31, 2019	Jan 1 – Dec 31, 2018
Cash flow from operating activities	**327.2**	**212.8**
Cash flow from investing activities	**–290.3**	**–207.0**
Cash flow from financing activities	**–57.3**	**–75.9**
Change in cash and cash equivalents	–20.4	–70.1
Exchange-rate related and other changes in cash and cash equivalents	1.9	0.3
Cash and cash equivalents at the beginning of the period	995.0	1,064.7
Cash and cash equivalents as of December 31	**976.5**	**995.0**

In fiscal year 2019, Zalando generated a positive cash flow from operating activities of EUR 327.2m (prior year: EUR 212.8m). Further to an improvement in pre-tax income (which rose from EUR 105.6m in the prior year to EUR 144.9m in the reporting year) and increased depreciation and amortization, cash flow from operating activities increased due to a higher cash inflow from working capital. This was partly offset notably by the increase in income tax payments. The cash flow from operating activities includes the effect from the partial reclassification of lease payments. According to the new accounting standard on leases (IFRS 16), cash payments for contracts are included in the cash flow from financing activities with the amount used for the repayment of the principal portion of lease liabilities (+54.2€m) and in the cash flow from operating activities with the interest portion on lease liabilities (+12.5€m). In prior year periods, lease payments were entirely included in the cash flow from operating activities.

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 -84.3m in the prior year to EUR -147.7m as of December 31, 2019 (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; Olsztynek, Poland; Rotterdam (Bleiswijk), Netherlands, and Lodz (Gluchow), Poland and capital expenditures on internally developed software and 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 306.5m (prior year: EUR 278.4m). Cash flow from investing activities also contains payments received for the interest in the proceeds from the sale of developed land owned by third parties of EUR 21.8m. This resulted from the participation in the increase in sales price of the Zalando Campus property in Berlin, Germany. The amount had been recognized in the income statement over several years beginning in 2015. In 2019, an amount of EUR 1.7m was invested in corporate acquisitions (prior year: EUR 7.1m).

As a result, free cash flow increased by EUR 55.4m from EUR -13.8m to EUR 41.6m compared to the prior year.

Cash flow from investing activities further consists of cash invested in term deposits which have an original term of more than three months and are therefore presented in cash flow from investing activities. As of December 31, 2019, an amount of EUR 5.0m was invested in such term deposits.

The cash flow from financing activities mainly includes cash outflows for the repayment of the principal portion of lease liabilities (EUR 54.2m). In the prior-year period, all lease payments were included in the cash flow from operating activities (see above). The cash paid for the repurchase of treasury shares amounting to EUR 38.8m (prior year: EUR 110.9m) was nearly compensated by the cash received from capital increases amounting to EUR 38.5m (prior year: EUR 38.2m).

As a result, cash and cash equivalents decreased by EUR 18.5m during the year, resulting in Zalando carrying cash and cash equivalents of EUR 976.5m as of December 31, 2019.

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 2019 by EUR 13.5m to EUR 1,001.5m.

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. 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, 2019, an amount of EUR 79.6m had been utilized for bank guarantees and letters of credit.

Financial Position

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

Assets

IN EUR M	Dec 31, 2019		Dec 31, 2018		Change	
Non-current assets	1,455.1	33.6%	760.2	23.5%	694.8	91.4%
Current assets	2,878.0	66.4%	2,473.5	76.5%	404.5	16.4%
Total assets	**4,333.1**	**100.0%**	**3,233.7**	**100.0%**	**1,099.3**	**34.0%**

Equity and Liabilities

IN EUR M	Dec 31, 2019		Dec 31, 2018		Change	
Equity	1,683.8	38.9%	1,549.1	47.9%	134.6	8.7%
Non-current liabilities	542.6	12.5%	70.9	2.2%	471.7	665.3%
Current liabilities	2,106.7	48.6%	1,613.7	49.9%	493.0	30.6%
Total equity and liabilities	**4,333.1**	**100.0%**	**3,233.7**	**100.0%**	**1,099.3**	**34.0%**

Compared to December 31, 2018, Zalando's total assets increased by 1,099.3 (+34.0%).

The accounting treatment for leases was changed in 2019 in accordance with the new accounting standard on leases (IFRS 16). This had a major impact on the statement of financial position, resulting in a carrying amount of right-of-use assets (non-current) of EUR 525.6m and total lease liabilities (current and non-current) of EUR 549.4m as of December 31, 2019 (see also Section 3.5.7. (13.)). Right-of-use assets mainly relate to lease contracts for fulfillment centers, office buildings and outlets.

In 2019, investments in intangible assets amounted to EUR 69.7m (prior year: EUR 57.3m), while investments in property, plant and equipment totalled EUR 247.7m (prior year: EUR 244.3m).

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 2019, additions related to capitalized development costs amounted to EUR 68.5m (prior year: EUR 54.9m), of which EUR 41.6m is contained in prepayments and assets under development (prior year: EUR 28.4m).

Inventories in 2019 mainly represent goods required for Zalando's wholesale business. The EUR 278.8m increase in inventories to EUR 1,098.3 resulted from the increased business volume and from holding larger amounts of inventory in stock to increase availability and thus customer satisfaction.

Trade and other receivables as reported on December 31, 2019, are all current. The increase of EUR 67.2m to EUR 462.3 is primarily attributable to the higher sales volume towards the end of the period.

Equity rose from EUR 1,549.1m to EUR 1,683.8m in the fiscal year. The EUR 134.7m increase primarily stems from the net income in the period and from capital increases, partly offset by repurchases of treasury shares. In the reporting period, the equity ratio fell from 47.9% at the beginning of the year to 38.9% as of December 31, 2019, due to an increase in liabilities mainly resulting from the first-time application of IFRS 16 and an increase in trade payables.

Lease liabilities have a carrying amount of EUR 549.4m as of December 31, 2019; of that amount EUR 481.4m are non-current and EUR 68.0m are current. They represent the discounted financial obligations resulting from lease contracts as per IFRS 16.

Current liabilities increased by EUR 493.0m in the reporting period. This increase is mainly attributable to trade payables and similar liabilities, which rose by EUR 409.4m from EUR 1,298.9m last year to EUR 1,708.3m 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 394.5m were transferred to various factors as of December 31, 2019 (December 31, 2018: EUR 374.6m). 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 -84.3m in the prior year to EUR -147.7m as of December 31, 2019. 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 2019 as very successful. Zalando focused on growth opportunities, made key strategic investments and remained profitable in the process. The Zalando group increased revenue strongly in fiscal year 2019 and gained additional market share. EBIT increased compared to prior year as a result of efficiency gains in fulfillment and administrative cost while we continued to push forward our investments in customer acquisition and proposition improvements.

The company targets were fully met in 2019. The 2018 group management report anticipated GMV growth of 20% to 25%, revenue growth at the low end of this corridor and an adjusted EBIT of between EUR 175m and EUR 225m in 2019. Following a strong first half of 2019, Zalando refined its guidance after the second quarter 2019 for adjusted EBIT to the upper half of its guided corridor of EUR 175m and EUR 225m and revenue growth around the low end of 20% to 25%. The modified guidance for revenue around the low end of the 20% to 25% target growth corridor and for adjusted EBIT of EUR 175m to EUR 225m was met by year-end. The active customer base as well as the number of orders per active customer developed in line with expectations.

The 2018 group management report anticipated capital expenditures of around EUR 300m. This target was met, with reported capital expenditures amounting to EUR 306.5m at year end.

Overall, in 2019 the group achieved strong growth and remained clearly profitable.

4.2.4 Employees

At the end of 2019, Zalando had 13,763 employees (prior year: 15,619), representing a decrease of 11.9% compared to the prior year. The average headcount fell by 1,289 to 14,237. The decrease was mainly driven by the falling headcount in the Operations Department due to outsourcing of our fulfillment center in Brieselang, Germany.

Additional information regarding our sustainability strategy is provided in the separate section 1.2, Corporate Responsibility and Sustainability[13].

4.3 Subsequent Events

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

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

4.4 Risk and Opportunity Report

- We define opportunities and risks as events that in case they materialize would result in positive or negative deviations from our business goals.
- In the current forecasting period, we identified no risks that might threaten Zalando as a going concern.

Identifying and quickly acting on opportunities as well as mitigating risks is essential for our company.

As an international company, Zalando has exposure to 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 implemented risk and opportunity management system.

4.4.1 Risk and Opportunity Management System

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

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

RMS Elements

RMS Objectives

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

Risk and Opportunity Identification and Monitoring

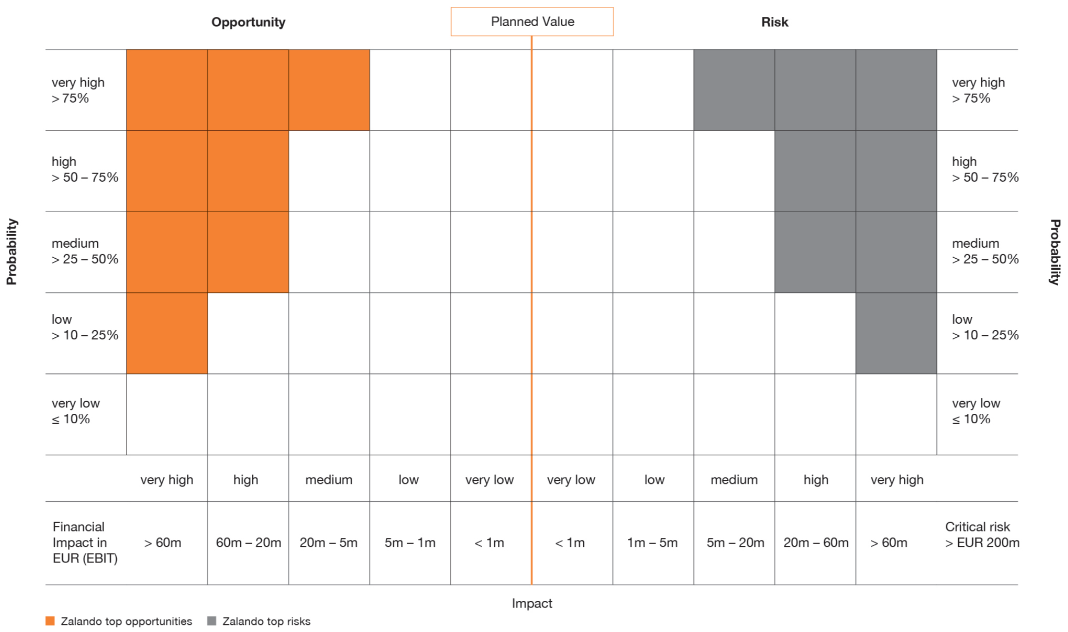
Using multiple instruments, such as workshops and self-assessments, the identification and assessment of risks and opportunities is carried out by both, the risk and opportunity owners during day-to-day operations and the Risk Management Team on a half-yearly basis. Moreover, Zalando has implemented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

The systematic identification and utilization of opportunities are important elements in ensuring profitable growth.

Risk and Opportunity Assessment

All risks and opportunities identified are evaluated by three different scenarios (optimistic case, realistic case, pessimistic case) with regard to their probability of occurrence and their potential impact based on a one-year time horizon. The outcome of the evaluation of each risk/opportunity is displayed using the following risk and opportunity matrix:

Risk and Opportunity Matrix



The probability of occurrence represents the possibility that a specific impact for a risk or an opportunity may materialize within the defined one-year 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 scale considers the impact on Zalando’s image. Zalando separately tracks risks that exceed EUR 200m as critical, 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 mitigation 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 the Risk and Opportunity Matrix).

Risk and Opportunity Control

Risk and opportunity owners are charged with developing and implementing effective 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 avoidance, reduction, transfer to a third party, or acceptance.

Risk and Opportunity Management Improvements and Reporting

The Risk Management Team reports on the overall risk and opportunity situation to the senior management, the Management Board and the Supervisory Board on a half-yearly basis. Internal Audit conducts assessments of the adherence to and effectiveness of relevant mitigating measures and controls as part of their risk based audit plan. Internal Audit also regularly reviews the functional capacity and appropriateness of our RMS 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 internal audit system.

System of Internal Controls over Financial Reporting

In addition to the overall RMS, Zalando has implemented a system of internal controls over financial reporting pursuant to Section 315 (4) HGB. It aims to identify, assess and manage 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 controls over financial reporting comprises preventive, monitoring and detective control measures, which ensure a methodical process for preparing the financial statements. The internal control system is implemented in the company’s various processes which have a significant influence on financial reporting.

These processes, the risks relevant for financial reporting as well as the controls mitigating these risks are analyzed and documented. A cross-process risk and control matrix contains relevant controls, including a description of the control, type of control, frequency with which it is carried out, the mitigated risk and the person responsible. The control mechanisms implemented affects 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 process 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 Internal Audit.

4.4.2 Illustration of Material Risks

Overall, we identified no risks that might threaten ZALANDO SE as a going concern. The table below shows the top risks which comprise all material risks in accordance with our RMS methodology. 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

	2019		2018	
TOP-RISKS	Impact	Probability	Impact	Probability
Increased Costs or Limitation to Growth due to Competition	Very High	Medium	Very High	Medium
Changing Regulatory Requirements	High	High	High	High
Supply chain disruptions due to events in supplier countries	↑ High	↑ Medium	Medium	Low
Impact of Climate Change on the Business Cases	High	Medium	High	Medium
Lack of State-of-the-Art Shops	High	Medium	High	Medium
High Data Protection Requirements	High	Medium	High	Medium
Cybersecurity Threats	High	Medium	High	Medium

Compared to the 2018 Risk and Opportunity Report, the risk of “Limited Capacities at Logistics Service Providers” is no longer regarded as a top risk for Zalando, as the further diversification of last mile service providers, long term contracts and improved logistics forecasting led to a reduced risk assessment over the one-year evaluation period. In the long term, however, we could see the risk increasing again as our logistic service providers may not be able to keep pace with our growth, which in turn might result in higher logistics costs.

In the following, Zalando's top risks are presented in descending order depending on their respective positions in the risk matrix.

Increased Costs or Limitation to Growth due to Competition

Fashion, and in particular online fashion retail, is a competitive space, with large international e-commerce players, local challengers as well as global tech and fashion companies continuing to improve their e-commerce offerings. Future business growth might be at risk or might at least become more expensive as the overall market will be more contested.

Facing this competitive environment, we are convinced that the Zalando platform model and executing on our strategy is the right answer for the future, enabling us to convince new customers, retain existing customers, as well as to engage customers in new touchpoints arising from deepening customer relationships, strong partnerships and market or segment expansion.

Changing Regulatory Requirements

With business activities in various countries, risks can arise from changing regulatory requirements on local, national and supra-national level. Changes in the regulatory frameworks can necessitate amendments to processes and business cases entailing an increase in costs or reduction in sales. Zalando's risk exposure is primarily driven by expected near-future to mid-term regulatory changes such as potential new initiatives to regulate the Platform-to-Business relationships (P2B), new efforts to implement further digital service taxes in markets Zalando is operating in, the Brexit with its potential implications on our UK sourcing budget as well as the upcoming ePrivacy Regulation and the adaptation of the German Telemedia Act, which might have direct implications for our personalized marketing activities.

To adequately monitor the multitude of regulatory changes, Zalando's Public Affairs Team supports various stakeholders with a regulatory watch process utilizing different channels and initiates countermeasures together with the departments affected.

Supply Chain Disruptions Due to Events in Supplier Countries

Highly interconnected processes, a high degree of internationality and a large number of partners working together in a network characterize a global value and supply chain. Disruptions to this global supply chain can, depending on the duration and extent of the disruption, lead to significant restrictions in business activities.

Unlike other industries, Zalando's supply chain is not designed for just-in-time processes. Instead, our seasonal planning approach is characterised by long-term procurement processes. In this way we ensure that the majority of seasonal goods are ordered and received well in advance of the respective selling season. Short-term disruptions in the value and supply chains can thus be compensated to some extent. However, long-term disruptions lasting several weeks or even months can lead to restrictions in these long-term processes and temporarily negatively affect our ability to drive and satisfy customer demand. Current events in Asia such as factory closures, restrictions in public life as well as transport and supply chain restrictions in response to the spread of the Coronavirus (COVID-19) represent a potential risk for long-term disruptions. The current developments and restrictions are therefore being monitored closely together with our suppliers and, where possible, countered by temporarily adjusting the value and supply chains accordingly.

Impact of Climate Change on the Business Cases

Zalando's product selection, purchasing and sales forecast 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 an early start of the following season. Depending on the 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 company goals.

Although measures have been taken to mitigate seasonal weather effects, this risk will remain part of the Zalando business model. With increasing revenue and stock levels as well as an accelerating change in climate, it is expected that the impact will increase over time. We approach this weather-induced uncertainty with more flexible procurement and planning processes as well as expanding our product range in non-seasonal areas and increasing the share of our partner program. In addition to that, we are taking responsibility for our environmental impact and are working to reduce our carbon footprint with our Zalando do.More group sustainability strategy.

Lack of State-of-the-Art Shops

To meet the rising and changing needs and expectations of our customers as well as to realize market opportunities, regular improvements and adjustments to our shops are required. Neglecting the necessary adjustments or inadequate implementation of such measures can lead to customer migration away from Zalando, followed by revenue losses.

Our Digital Experience Team identifies and suggests relevant developments, makes adjustments (e.g., the evolution of the Fashion Store on-site and in-app experience), and coordinates the corresponding implementation with other teams.

Data Protection Requirements

Data protection is a focus area at Zalando. Millions of customers entrust us with their personal data. Accordingly, Zalando is subject to numerous laws and regulations on data protection and privacy on EU and national levels. This includes, in particular the GDPR but extends to local law frameworks and changes pertaining to the German Telemedia Act, the ePrivacy Directive as well as the proposed ePrivacy Regulation, or the GDPR related guidelines on fines, as jointly published by the German Data Protection Authorities.

It is our duty to handle this data responsibly and protect it from unauthorized access. To mitigate risks of potential violations, our data protection officer (DPO) and our Data & IT Law Team continuously monitor data protection requirements, help to create and implement corresponding measures and processes and provide advice, expertise, and training. This oversight comprises close cooperation and alignment in particular with IT Security teams, supporting with the implementation of adequate technical and organizational measures to protect customer data. Zalando also works with external partners and law firms to ensure that we correctly interpret the legal requirements and respond with appropriate actions.

Cybersecurity Threats

Cybersecurity threats from internal or external attacks or internal control weaknesses may damage vital aspects of specific Zalando domains, including our customer-facing applications, fulfillment center IT systems, payments systems, and internal IT systems. Such risks include, but are not limited to, outages due to distributed denial of service (DDoS), data loss due to security breaches, degraded operations and inaccurate reporting due to integrity violations, or any combination thereof. Zalando is a potential target due to its size, data pool, and dependency on IT systems.

Comprehensive solutions include technological security solutions, defined preventive approaches, and specialized in-house resources to identify, detect, protect, respond, and recover from dangers relating to cybersecurity threats and incidents.

4.4.3 Illustration of Opportunities

Given our definition of an opportunity as a "positive deviation from our business goals", we identified no material opportunity that could result in us significantly overachieving our ambitious goals. However, there are strategic opportunities resulting from deepening customer relationships (e.g. personalized customer experience, Zalando Plus, and sustainable fashion), strong partnerships (e.g. Partner Program, Zalando Fulfillment Solutions and Zalando Marketing Services) and market or segment expansion (e.g. Eastern Europe, Beauty, Zalando Wardrobe and Connected Retail).

Deepening Customer Relationships

We strongly believe in customer centricity and therefore focus on building long-term customer relationships to become the Starting Point for Fashion for a growing number of customers across Europe. Becoming the Starting Point for Fashion means for us being at the front and center of our customers' minds when it comes to fashion and lifestyle.

We see personalization as one crucial element in tailoring the Zalando customer experience to fit our customers interests and engagement. For this purpose, we are investing in artificial intelligence (AI), which plays a major role in helping us understand user preferences and anticipate their intentions, to offer a personalized experience. AI for example is used to solve customers' fitting problems, by leveraging data from past transactions.

Aside from our customer experience we strive to offer a winning convenience proposition tailored to fashion, from discovery and ordering articles on our online platform to delivery, return and payment. We will continue investing in scaling our Zalando Plus loyalty program, expanding our European logistics footprint and payment services to deepen our relationships with our customers.

Zalando is acknowledging its role in the fashion industry and its responsibility regarding sustainability. Accordingly, we have set ourselves ambitious goals to fulfill our responsibility towards future generations. We are convinced that despite, or precisely because of, our sustainable goals, we will also have economic success. The call for more sustainability in fashion is particularly strong among younger generations who form our future customer base. Nine out of ten GenZ consumers believe companies have a responsibility to address both environmental and social issues.[14]

Strong Partnerships

Since our founding days, our relationship with partners has been a growth driver for Zalando. We are convinced that strong partnerships built on trust will continue to support us to become the Starting Point for Fashion. We believe that this relationship-oriented approach in which we focus on "win-win-win" outcomes for customers, partners and Zalando will make us the preferred partner in fashion online.

Our Partner Program enables brands and retailers to sell their merchandise via the Zalando platform, while maintaining full pricing freedom and control over their brand, the content displayed as well as the products offered. Zalando's online brand shops are at the heart of this approach, targeted at enabling partners to interact directly with customers and build loyalty for their brand. Expanding this proposition to our partners, Zalando has moved to offering holistic technology solutions tailored to partners' specific

14) McKinsey: The State of Fashion 2019, p. 45

needs including integration services, Zalando Fulfillment Solutions (ZFS) as well as Zalando Marketing Services (ZMS).

ZFS makes our logistics infrastructure available to partners. Through this service, brand partners can leverage Zalando’s logistic capabilities to scale up their businesses internationally and provide Zalando’s delivery standards to their customers across Europe. Via our ZMS business we offer digital technologies and services to help our partners increase their reach, brand impact and better understand their customers’ preferences. ZMS will continue to invest in its proposition, aiming to offer a full range of performance and brand marketing services.

Markets and Segments

We strive to meet our ambitious goals by closely monitoring the markets to spot trends and turn them into actionable insights and by focusing on our core markets, strengthening our position in the most recently entered markets such as Ireland and the Czech Republic, as well as by assessing possibilities to expand into new markets and segments.

We continue to offer our customers a large fashion assortment of more than 2,500 brands and more than 450,000 product choices in our categories Men, Women, Children, Beauty, Sport and Premium. In order to take the next step and be in line with our growth and sustainability goals, we will significantly expand our range of more sustainable products in the future. To seize this opportunity, we will seek to attain more sustainable brands to our platform, work with partners to increase their share of more sustainable products and transform Zalando’s private label ZIGN into a more sustainable brand.

To further support our sustainability goals and through the size and influence of our platform, we can positively influence the way our customers buy and later treat their clothes. One solution Zalando already has today that ties into a more circular approach to fashion is Zalando Wardrobe. With Zalando Wardrobe we apply one of the principles of circularity: keeping products and materials in use. By impacting post-production phases such as buying, wearing and end-of-life via (re-)selling or donation, Zalando Wardrobe can help extend the life of fashion products and add a loop to the linear fashion system.

Additionally, we are closing the gap between online and offline fashion with our new Connected Retail service. Through Connected Retail, partners can take orders from Zalando customers themselves and ship the goods directly from their physical stores. The goal is to help brands grow their online presence by simplifying their e-commerce operations both online and offline.

4.5 Outlook

- Continued positive outlook for online fashion retail in Europe and Germany.
- Online fashion sales are expected to grow by 9.0%[15] in Europe and 6.4%[16] in Germany in 2020.
- 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 2020, revenue growth forecast to be in a 15%–20% corridor; adjusted EBIT expected between EUR 225m and EUR 275m.

4.5.1 Future Overall Economic and Industry-Specific Situation

In 2020, European online fashion is expected to once again outpace the overall fashion market. A 9.0%[17] increase is forecasted for online fashion compared to the 1.1%[18] forecasted for the overall market. The German online fashion market has a similar projected growth of 6.4%[19] while the overall fashion market is expected to increase by just 0.6%[20] in the upcoming year.

Due to its wide brand awareness among European consumers, a large and highly engaged customer base, strong supplier relationships, its infrastructure footprint, and it's fashion and mobile technology capacity, Zalando is well positioned to benefit from these favorable market conditions. We believe that 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 general merchandise e-commerce retailers.

4.5.2 Future Development of the Group

Zalando is driven by its vision to become the starting point for fashion and the fundamental conviction that a platform business model is the key to its success. Growing our active customer base and building deep relationships with European fashion customers will make Zalando even more relevant for our brand partners. And only in partnership with our brand partners, will we be able to offer the most attractive assortment and most inspiring content for customers to enjoy. We therefore aim to continue to grow significantly faster than the online fashion market and increase our market share. Management is convinced that this is the value-maximizing strategy for the company.

15) Euromonitor, Europe excl. Russia, Germany
16) ibid
17) ibid
18) ibid
19) ibid Euromonitor, Germany
20) ibid

For the fiscal year 2020[21] Zalando expects to grow GMV in its 20% to 25% target corridor, while revenue growth is forecast to be in a 15% to 20% corridor, trailing GMV growth as a result of the ongoing platform transition. We expect the continued strong GMV and revenue growth in 2020 to be primarily driven by an increase in the active customer base as well as an increase in the number of orders per active customer as a result of our ongoing investments in customer acquisition and deepening customer relationships.

Zalando expects to continue to grow profitably and to further increase its adjusted EBIT in 2020. The company expects adjusted EBIT of EUR 225.0m to EUR 275.0m (EBIT EUR 175.0m to EUR 225.0m) (fiscal year 2019: adjusted EBIT of EUR 224.9m; EBIT of EUR 165.8m).

The company will continue to invest into logistics and technology and plans capital expenditure of around EUR 330.0m in 2020 (2019: EUR 306.5m).

4.5.3 Overall Assessment by the Management Board of ZALANDO SE

Overall, the Management Board views the developments in fiscal year 2019 and the economic position of Zalando as very successful. Zalando showed significant growth, made important long-term investments and remained profitable in the process. The company has grown considerably in all markets and has improved its market position further. In 2020, 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.

21) These expectations for 2020 are subject to a potential negative impact from supply and/or demand side disruptions caused by the Coronavirus (COVID-19). Parts of our product supply could become delayed or even cancelled, which would temporarily negatively affect our ability to drive and satisfy customer demand. In addition, a spread of the virus across Europe could have temporary negative effects on customer demand. The situation is evolving, we are in close contact with our suppliers as well as logistics partners and we will provide more information during our Q1 earnings call in May.

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

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

4.6.1 Business Activity

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

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

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

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

4.6.2 Economic Situation of ZALANDO SE

The results of ZALANDO SE's operations are presented in the following condensed income statement and are broken down by type of expense 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 the German Commercial Code (Short Version)

IN EUR M	Jan 1 – Dec 31, 2019	As % of sales	Jan 1 – Dec 31, 2018	As % of sales	Change in percentage points
Revenue	6,391.0	100.0%	5,338.5	100.0%	0.0pp
Own work capitalized	40.1	0.6%	34.2	0.6%	0.0pp
Other operating income	114.2	1.8%	126.8	2.4%	–0.6pp
Cost of materials	–3,549.3	–55.5%	–3,058.4	–57.3%	1.8pp
Gross profit	**2,996.0**	**46.9%**	**2,441.1**	**45.7%**	**1.2pp**
Personnel expenses	–372.8	–5.8%	–334.5	–6.3%	0.4pp
Amortization and depreciation	–57.9	–0.9%	–43.6	–0.8%	–0.1pp
Other operating expenses	–2,457.4	–38.5%	–1,930.1	–36.2%	–2.3pp
Operating result	**107.9**	**1.7%**	**132.8**	**2.5%**	**–0.8pp**
Financial result	**–32.5**	**–0.5%**	**–46.7**	**–0.9%**	**0.4pp**
Result from ordinary business activities	**75.4**	**1.2%**	**86.1**	**1.6%**	**–0.4pp**
Income taxes	–39.5	–0.6%	–52.8	–1.0%	0.3pp
Net income for the year	**35.9**	**0.6%**	**33.3**	**0.6%**	**–0.1pp**
Operating result margin	1.7%	0.0%	2.5%	0.0%	–0.8pp

In the reporting period, Zalando increased its revenue by EUR 1,052.5m to EUR 6,391.0m. The 19.7% increase in revenue is the result of a larger customer base and therefore a higher number of orders (24.8%). 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 partner 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.

Revenue of ZALANDO SE by Geographical Region

IN EUR M	2019		2018		Changes	
DACH*	2,935.5	45.9%	2,604.5	48.8%	331.0	12.7%
Rest of Europe**	3,455.5	54.1%	2,734.0	51.2%	721.5	26.4%
Total	**6,391.0**	**100.0%**	**5,338.5**	**100.0%**	**1,052.5**	**19.7%**

*) The DACH region is comprised of Germany, Austria and Switzerland.
**) The Rest of Europe region is comprised of the Netherlands, France, Italy, the United Kingdom, Poland, Belgium, Sweden, Finland, Denmark, Spain, Norway, Luxembourg, Ireland and the Czech Republic.

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

The cost of materials rose by EUR 490.9m to EUR 3,549.3m, in line with the expansion of business. The decrease of 1.8 percentage points in the ratio of the cost of materials to revenue to 55.5% can be primarily attributed to better buying conditions and a positive impact from lower allowances of goods. Overall, the company generated a gross profit of EUR 2,996.0m in fiscal year 2019 (prior year: EUR 2,441.1m).

Personnel expenses rose by EUR 38.3m to EUR 372.8m, in line with the rise in the number of employees. In 2019, the average headcount increased by 184 on the prior year from 4,348 to 4,532 employees.

Amortization and depreciation increased in comparison to prior year because of further investments in long-term assets.

Other operating expenses primarily include marketing expenses as well as fulfillment costs. The cost ratio as a percentage of revenue (38.5%) is slightly above the previous year, primarily due to an increase in marketing costs. This increase is primarily attributable to the conscious decision to invest in long-term personalized marketing measures to attract customers and drive customer development. The improvement in the fulfillment costs on the back of continued overall efficiency gains and better order economics could not offset this effect.

The operating result for the year of EUR 107.9m decreased by 0.8 percentage points, mainly due to higher marketing costs and depreciation which could not be offset by a higher gross profitmargin and improved fulfillment costs.

The financial result mainly comprises impairments of financial investments of EUR 31.1m (prior year: EUR 49.4m) as well as expenses from profit transfers of EUR 5.5m (prior year income of: EUR 4.6m) 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 2019 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

IN EUR M	Jan 1 – Dec 31, 2019	Jan 1 – Dec 31, 2018
Deferred taxes	14.6	8.4
Current taxes in Germany	–54.1	–61.2
Total	**–39.5**	**–52.8**

Net Assets and Financial Position

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

Assets

IN EUR M	Dec 31, 2019		Dec 31, 2018		Changes
Non-current assets	1,448.4	37.5%	656.7	20.0%	791.7
Current assets	2,389.7	61.9%	2,622.6	79.7%	–233.0
Prepaid expenses	16.4	0.4%	9.1	0.3%	7.3
Deferred tax assets	6.5	0.2%	0.0	0.0%	6.5
Total assets	**3,861.0**	**100.0%**	**3,288.4**	**100.0%**	**572.6**

Equity and Liabilities

IN EUR M	Dec 31, 2019		Dec 31, 2018		Changes
Equity	1,647.7	42.7%	1,568.8	47.7%	78.9
Special items for government grants	0.0	0.0%	0.0	0.0%	0.0
Provisions	467.6	12.1%	381.0	11.5%	86.6
Liabilities	1,744.0	45.2%	1,323.8	40.1%	420.2
Deferred income	1.8	0.0%	6.7	0.2%	–4.9
Deferred tax liabilities	0.0	0.0%	8.1	0.2%	–8.1
Total equity and liabilities	**3,861.0**	**100.0%**	**3,288.4**	**100.0%**	**572.6**

The total assets of ZALANDO SE rose by around 17.4% because of a further increase in business volume and increased investments. The assets of ZALANDO SE primarily consist of financial and current assets, specifically shares in affiliated companies as well as inventories and receivables. Equity and liabilities exclusively comprise equity and current liabilities and provisions.

In fiscal year 2019, additions to non-current assets mainly related to intangible assets (EUR 62.1m) and financial assets (EUR 789.6m). In 2019, additions to financial assets included additions to loans to affiliated companies (EUR 533.2m). The loan agreements with subsidiaries of ZALANDO SE were renewed in 2019. Due to the new terms, these loans to affiliated companies are reported under financial assets in 2019. Investing activities were financed exclusively from the group's own funds.

In fiscal year 2019, inventories solely comprised merchandise used in the core operational business of ZALANDO SE.

As of December 31, 2019, ZALANDO SE's trade receivables were down from EUR 544.4 m to EUR 28.5m. This is mainly due to the transfer of receivables to Zalando Payments GmbH (factoring), which went live in 2019.

Regarding 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 2019, Zalando generated a positive cash flow from operating activities of EUR 244.3m (prior year: EUR 206.4m). Further to an increase in income (from EUR 33.3m in the prior year to EUR 35.9m in the reporting year), cash flow from operating activities increased largely due to a higher cash inflow from working capital (prior year: cash outflow). This was partly offset by increased income tax payments.

The cash flow from investing activities in fiscal year 2019 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. The cash flow from investing activities also contains investments in loans to affiliated companies. 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 42.7% (prior year: 47.7%).

Provisions and liabilities increased by EUR 506.8m to EUR 2,211.6m in line with the expansion of business. As of December 31, 2019, 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 394.5m were transferred to various factors as of December 31, 2019 (December 31, 2018: EUR 374.6m). These are recognized in the statement of financial position under trade payables and similar liabilities.

4.6.3 Risks and Opportunities

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

4.6.4 Outlook

The statements made on market trends, the development of revenue and the results for the group also apply here by virtue of the close ties between ZALANDO SE and the group companies and its weight within the group. The statements also reflect the expectations for the parent company in terms of trends and intensity of the expected developments of the main key performance indicators. The Management Board thus expects a significant increase in ZALANDO SE's revenues and a slight increase in the operating result.

Berlin, February 25, 2020

Robert Gentz   David Schneider   Rubin Ritter   James M. Freeman, II   David Schröder

5.1 Responsibility Statement by the Management Board

We assure to the best of our knowledge and in accordance with the applicable reporting principles that the financial statements give a true and fair view of the assets, financial and earnings position of the company, and that the management report, which is combined with the group management report, includes a fair review of the development and performance of the business and the position of the company, together with a description of the principal opportunities and risks associated with the expected development of the company.

Berlin, February 25, 2020

The Management Board

Robert Gentz   David Schneider   Rubin Ritter   James M. Freeman, II   David Schröder

6.1 Corporate Governance Report

Corporate governance, as practised by Zalando, involves responsible management and control of the company geared towards long-term goals. ZALANDO SE's Management Board and Supervisory Board value good corporate governance very highly and align their approach to the recommendations set out in the German Corporate Governance Code. In the following, the Management Board and Supervisory Board submit the corporate governance report together with the statement on corporate governance 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.[22]

6.1.1 Declaration of Conformity

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

The Management Board and the Supervisory Board of ZALANDO SE declare that ZALANDO SE has 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")

(a) since the publication of the last annual declaration of conformity in December 2018 until the updated declaration of conformity in February 2019 except for the deviations stated and explained below under sec. 1., 2. and 4.,

(b) since the updated declaration of conformity in February 2019 the updated declaration of conformity in October 2019 except for the deviations stated and explained below under sec. 1. to 4.; and

(c) since the updated declaration of conformity in October 2019 and will in the future act in conformity with the recommendations of the Code except for the deviations stated and explained below under sec. 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.

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

— **2. No. 4.2.1 Sentence 1:** according to the Code's recommendations, the Management Board shall have a chairman or spokesman. Previously, the three long-standing members of the Management Board of ZALANDO SE (the Co-CEOs) have worked together on an equal footing without any member performing the function of chairman or spokesman. Also after the enlargement of the Management Board to five members, the Supervisory Board does not see any reason why it should change this established and successful cooperation on an equal footing.

— **3. No. 4.2.3 Paragraph 2 Sentences 6 and 7:** according to the Code's recommendation, the amount of remuneration shall be subject to a numerical cap, both as regards variable components and in the aggregate, and the variable compensation components shall be related to demanding, relevant comparison parameters.

The amount of remuneration of the three Co-CEOs is subject to a numerical cap, both as regards variable components and in the aggregate. Likewise, the remuneration components granted to the two new members of the Management Board is subject to a numerical cap, both as regards variable components and in the aggregate. However, the two new members of the Management Board, who both were employed with the company as Senior Vice President until their appointment as members of the Management Board with effect as of 1 April 2019 (the new members of the Management Board), continue to hold options under previous stock option or virtual stock option programs of the company granted to them as part of their remuneration in relation to their prior employment. However, these existing programs, which partly continue to vest during their term of appointment and, insofar, are considered part of their remuneration as Management Board members going forward, are not subject to a numerical cap. As such existing entitlements under previous programs will represent, in terms of present fair value, only a small part of the overall remuneration over the contract term of each of the new Management Board members and, under each of such programs, the company is already entitled to adjust the payout in order to eliminate effects of extraordinary developments, the Supervisory Board does not deem it necessary to retroactively introduce a numerical cap also for such existing entitlements. Consequently, the numerical cap for the overall amount of the compensation of the two new members of the Management Board does not apply to their existing entitlements under previous programs resulting in a respective deviation from No. 4.2.3 paragraph 2 Sentence 6 of the Code.

The Code's recommendation of applying demanding, relevant comparison parameters is complied with, in form of a performance criterion, as regards the options granted to the Co-CEOs as variable remuneration for their new term appointment commencing on 1 December 2018. It will also be complied with as regards the options granted to one of the two new members of the Management Board as new variable remuneration. However, while 50% of the options granted to the other new member of the Management Board as new variable remuneration will be subject to a similar performance criterion, the remaining 50% of such options will become exercisable (subject to their prior vesting and the expiration of the relevant waiting period) regardless of the extent to which such performance criterion is met. Consequently, a deviation from No. 4.2.3 paragraph 2 Sentence 7 of the Code is declared with regard to such last portion of options granted to this new Management Board member. Taking into account that also the last portion still reflects (positive and negative) developments of the share price of the company, the Supervisory Board deems the overall mix of risks of such options still adequate.

— **4. No. 5.1.2 Sentence 2**: according to the Code's recommendation, the Supervisory Board shall take diversity into account when appointing Management Board members. The Supervisory Board acknowledges and appreciates the importance of diversity. With regard to the Management Board's composition, qualification and the specific needs of the company shall be the decisive criterion. The Supervisory Board strives to adequately consider the various fields of core competencies of the business model. So far, the Supervisory Board has not applied a specific diversity concept with respect to the Management Board, as it has been founder-led and lean. Going forward, it will continuously reconsider this decision based on a long-term diversity concept in succession planning and balancing it with the company's specific needs. 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 gender, internationality and background.

6.1.2 Corporate Governance

Zalando´s corporate governance is determined by applicable law, the recommendations set out in the German Corporate Governance Code, and internal policies, rules of procedure and guidelines. Zalando's sustainability efforts form an integral part of its corporate governance. More information on Zalando's corporate responsibility strategy and activities can be found in section 1.2 Corporate Responsibility.

Non-financial report 2019

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

Our Code of Ethics, which is available on the corporate website and has been 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.

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 must acknowledge these standards to assure a safe and fair working environment and to commit to 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 must establish appropriate anti-bribery and anti-corruption policies and communicate them to all business areas. Zalando carries out business partner due diligence for defined groups 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 (including internal investigations where required), business partner due diligence, compliance-related trainings, and monitoring of certain types of expenses. In the reporting period, the compliance management system of ZALANDO SE was audited by an external auditing company with regard to anti-corruption and antitrust law, and the auditors confirmed that appropriate measures were implemented as of 15 March 2019, and the compliance management system was effective for the auditing period from March 16, 2019 to September 15, 2019 according to IDW AsS 980.

Further Information
Risk and Opportunity Report

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, Events & Expenses. Mandatory compliance training courses are conducted as face-to-face training courses for leads, and generally as e-learning courses for employees without leadership responsibility. The e-learning courses are mandatory for all employees who have a Zalando email address (except for defined roles with low compliance risks in logistics and stores). Employees at sites outside Berlin receive classroom training instead of e-learning courses to allow facilitate personal contact with the central Compliance & Business Ethics Team.

In the reporting period, 41 compliance basics face-to-face training courses were carried out (2018: 50), among them 7 outside Berlin, and 4,263 employees completed the compliance basics e-learning courses (2018: 5,113), among them 2,164 employees of ZALANDO SE (2018: 2,321). Each mandatory training course is followed by mandatory refresher courses 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 205-2

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

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

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

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

GRI 102-11

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

6.1.3 Management Board and Supervisory Board Procedures

Management Board Procedures

The Management Board bears responsibility for managing the company's business. It is bound to act in the interest of the company and to increase the long-term value of the company. The five members of the Management Board, Robert Gentz, David Schneider, Rubin Ritter, Jim Freeman and David Schröder 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. They work collaboratively and inform each other constantly about any significant measures and events within their areas of responsibility.

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 Management Board meets regularly, typically every week. The Management Board is in regular contact with the chairperson of the Supervisory Board, informs her on the progress of the business and the situation of the company and other group entities and consults with her on strategy, planning, business development, and risk management within the company. Should an important event occur or should any business issue arise that could be of significance 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 required to disclose any conflicts of interest to the Supervisory Board immediately. All transactions between the company or group entities on the one hand and the members of the Management Board as well as their related parties on the other must be conducted at arm's length and material transactions require Supervisory Board approval.

The following overview lists all of the companies and enterprises in which the members of the Management 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 Management Board

Name of Management Board member	Mandates pursuant to Section 125 (1) Sentence 5 AktG
David Schneider	Trivago N.V., Germany (member of the Supervisory Board until October 2019)
Robert Gentz	–
Rubin Ritter	–
Jim Freemann	Zalando Digital Portugal, Unipessoal Lda. (member of the Board of Directors) Zalando Finland Oy (member of the Board of Directors) Zalando Ireland Ltd. (member of the Board of Directors)
David Schröder	Zalando Logistics Operations Italy S.R.L (member of the Board of Directors) Zalando Logistics Operations Polska sp. z o.o. (member of the Management Board) Zalando OpCo Polska sp. z o.o. (member of the Management Board)

Composition of the Management Board

Each member of the Management Board shall have the knowledge, skills and professional experience required to duly fulfil his or her tasks and responsibilities. While qualification and specific needs of the Company shall be the decisive criterion with regard to the Management Board's composition, the Supervisory Board emphasizes the importance of diversity.

When considering the Management Board's composition, the Supervisory Board must take diversity into account. The Supervisory Board understands diversity of the Management Board as a combination of individual identities and experiences. These identities and experiences include gender, nationality, ethnicity, life experiences, and background (such as social or academic background). The Supervisory Board strives to adequately consider the various fields of core competences of the business model. The Supervisory Board also takes the following aspects into account, in particular:

- The Management Board as a whole should have appropriate management experience.
- The Management Board as a whole should, if possible, have knowledge and balanced experience based on different training and professional backgrounds, in particular in the fashion, technology and ecommerce industry and should have international experience.
- The Management Board as a whole should, if possible, possess several years of experience in the fields of strategy, finance as well as personnel management.
- The Supervisory Board aims for a balanced gender representation in the Management Board. The Supervisory Board has resolved on a target until 2023 in accordance with Section 111 (5) AktG (please see section 1.4.4 Target of Female Representation on the Supervisory Board).
- The Management Board members should not be older than 65 when elected.

The Supervisory Board works together with the Management Board to ensure a long-term succession planning for the composition of the Management Board. Zalando aims to fill most Management Board positions with candidates from within the company. The Supervisory Board is in continuous contact with the Management Board and monitors senior management personnel in order to identify and develop suitable candidates to fill Management Board positions.

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.

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

Name of Supervisory Board member	Profession	Mandates pursuant to Section 125 (1) Sentence 5 AktG
Dominik Asam (member until May 22, 2019)	Chief Financial Officer Infineon Technologies AG (until March 2019)	Mandates in affiliated companies:
	Chief Financial Officer Airbus SE (since April 2019)	Infineon Technologies Austria AG, Austria (member of the Supervisory Board until March 2019)
		Infineon Technologies Americas Corp., Delaware, USA (member of the Board of Directors until March 2019)
		Infineon Technologies Asia Pacific Pte., Ltd., Singapore (member of the Board of Directors until March 2019)
		Infineon Technologies China Co., Ltd., PRC (member of the Board of Directors)
		Directeur General Financier Airbus SAS
		Member of Board of Directors Airbus Canada Limited Partnership
		Airbus Defence and Space GmbH (chairperson of the Supervisory Board)
Kelly Bennet (member since May 22, 2019)	Chief Marketing Officer Netflix, Inc. (until July 2019)	Netflix, Inc. (member of the Board of Directors until July 2019)
	Advisor to Spotify CEO and Microsoft Xbox (since October/ August 2019)	Ancestry Information Operations Unlimited Company (operating under Ancestry.com) (member of the Supervisory Board)
Anthony Brew	Employee of Zalando Ireland Ltd. (Digital Experience)	–
Lothar Lanz (member and chairperson until May 22, 2019)	Member of various supervisory boards	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)
Jørgen Madsen Lindemann*	Chief Executive Officer & President of Modern Times Group MTG AB	Modern Times Group MTG AB (member of the Board of Directors)
		Turtle Entertainment GmbH, Germany (member of the Advisory Board)

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

Current and Past Mandates of the Supervisory Board

Name of Supervisory Board member	Profession	Mandates pursuant to Section 125 (1) Sentence 5 AktG
Anders Holch Povlsen**	Chief Executive Officer of Bestseller A/S	Intervare A / S 25169158, Denmark (member of the Board of Directors, chairperson) Nemlig.com A / S, Denmark (member of the Board of Directors, chairperson) J.Lindeberg AB 556533-7085, Sweden (member of the Board of Directors) J.Lindeberg Holding AB, Sweden (member of the Board of Directors) J.Lindeberg IP HK Limited, Hong Kong (member of the Board of Directors) J.Lindeberg Holding (Singapore) Pte. Ltd., Singapore (member of the Board of Directors) JL Schweiz AG, Switzerland (member of the Board of Directors,chairperson) North Coast 500 Limited, Inverness, UK (member of the Board of Directors)
Shanna Prevé (member until May 22, 2019)	Managing Director Business Development for Google Consumer Hardware Group (USA)	–
Mariella Röhm-Kottmann (member since May 22, 2019)	Senior Vice President, Head of Corporate Accounting of ZF Friedrichshafen AG	ZF Services Espana, S.L. (member of the Board of Directors) Compagnie Financière de ZF SAS (member of the Supervisory Board)
Alexander Samwer	Independent internet entrepreneur	Home24 SE, Germany (member of the Supervisory Board)
Konrad Schäfers	Employee of ZALANDO SE (Process Excellence)	–
Beate Siert	Employee of ZALANDO SE (Sourcing & Recruiting)	–
Cristina Stenbeck (member and chairperson since May 22, 2019)	Entrepreneur, investor and member of boards of directors	Kinnevik AB (member of the Board of Directors until May 2019) Spotify Technology S.A. (member of the Board of Directors) GoEuro Corp. (trading under the brand Omio), Delaware, USA (member of the Board of Directors) Verdere S.à. r.l., Luxembourg (member of the Board of Managers) Camshaft S.à. r.l., Luxembourg (member of the Board of Managers) Ameriana S.à r.l., Luxembourg (member of the Board of Managers) Ameriana AB, Stockholm (member of the Board of Directors)

**) Mr Povlsen is also member of Boards of Directors at various foreign group entitieof the Bestseller group as well as foreign entities with a family connection. Mr. Povlsen is considered a non independent member of the Supervisory Board representing the shareholders within the meaning of Section 5.4.2 of the German Corporate Governance Code.

The chairperson of the Supervisory Board, Cristina Stenbeck, is an independent member of the Supervisory Board representing the shareholders.

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 assesses the efficiency of its own activities and those of its committees. For this purpose, the Supervisory Board members complete a questionnaire on the effectiveness of the Supervisory Board's and committees' work at the beginning of each year. The findings of the efficiency assessment are discussed at the first meeting of the year and relevant recommendations and feedback implemented in due course. 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 adequate. 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 specific needs of the company so that the Management Board is monitored, supervised, and advised in a competent and professional manner. Each member of the Supervisory Board must have the knowledge, skills and professional experience required for him or her to duly fulfil his or her tasks and responsibilities and must make sure that he or she has sufficient time to perform his or her duties. The competence profile of the Supervisory Board as a whole comprises industry competence (in particular in the fields of fashion, technology and commerce) and finance competence as well as competencies in the areas of strategy, supervision and innovation. The members of the Supervisory Board as a group must be familiar with the sector in which the company operates.

No more than two former members of the Management Board shall be members of the Supervisory Board. Further, the Supervisory Board members shall not accept appointments to corporate bodies of or advisory tasks for important competitors of the company.

With regard to its composition, while qualification shall still be the decisive criterion, the Supervisory Board strives to adequately consider the international character, the various fields of core competences of the business model as well as the competence profile of the Supervisory Board, and, at the same time, to pay attention to diversity, in particular to variety as regards professional experience and expertise. To accommodate the international character of the company, the Supervisory Board shall as a rule have no fewer than two international members. The Supervisory Board members should not be older than 70 when elected.

The Supervisory Board aims for a balanced gender representation in the Supervisory Board. The Supervisory Board has resolved on a target until 2023 in accordance with Section 111 (5) AktG (please see section 1.4.4 on Target of Female Representation on the Supervisory Board).

Further, no fewer than four shareholder representatives on the Supervisory Board shall be independent from the company and its Management Board as defined in Recommendation C.7 of the German Corporate Governance Code 2020[23] and no fewer than two shareholder representatives shall be independent from a controlling shareholder, if any, as defined in Recommendation C.9 of the German Corporate Governance Code 2020. 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. The regular limit of length of membership for members of the Company's Supervisory Board shall be twelve years. The Supervisory Board is convinced that such a composition ensures the 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 2019 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 (i) handles questions regarding accounting, (ii) reviews and discusses the financial reports, (iii) approves the non-audit services by the auditor, (iv) evaluates the quality of the audits, (v) monitors the effectiveness of the internal risk management and control systems and the internal audit system, and (vi) 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

Dominik Asam (chairperson, until May 22, 2019)
Mariella Röhm-Kottmann (chairperson, since May 22, 2019)
Kelly Bennett (since May 22, 2019)
Lothar Lanz (until May 22, 2019)
Jørgen Madsen Lindemann
Konrad Schäfers

The chairperson of the audit committee, Mariella Röhm-Kottmann, has the requisite expertise in the area of accounting or auditing pursuant to Section 100 (5) AktG. Mariella Röhm-Kottmann is an independent member of the Supervisory Board representing the shareholders.

23) The German Corporate Governance Code 2020 is expected to enter into force in March 2020.

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, also in comparison to other enterprises and provides recommendations as a basis for decision-making by the Supervisory Board.

Members of the Remuneration Committee

Jørgen Madsen Lindemann (chairperson)
Shanna Prevé (until May 22, 2019)
Alexander Samwer
Cristina Stenbeck (since May 22, 2019)
Beate Siert

The chairperson of the remuneration committee, Jørgen Madsen Lindemann, is an independent member of the Supervisory Board representing the shareholders.

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. On the basis of a target profile (see Composition of the Supervisory Board), the Nomination Committee creates a shortlist of available candidates with whom it conducts structured interviews in which it also determines whether the candidate in question will have sufficient time available to perform his or her duties on the Supervisory Board with due care. The Nomination Committee then recommends a candidate to the Supervisory Board for its approval including an explanation of its recommendation.

Members of the Nomination Committee

Lothar Lanz (chairperson, until May 22, 2019)
Cristina Stenbeck (chairperson, since May 22, 2019)
Jørgen Madsen Lindemann
Anders Holch Povlsen

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

Zalando attaches great importance to inclusion and diversity throughout the company and is convinced that only a diverse and inclusive culture will ensure that we have the best talent on board and can truly serve our customer base. For further details on Zalando's diversity and inclusion strategy please refer to the do.GROW chapter.

Additional information Corporate Responsibility and Sustainability

Zalando aims for a more balanced gender representation on the Supervisory Board, the Management Board and the four management levels below the Management Board. Balanced representation is defined as a 40/60/* corridor where Zalando aims for women and men to reach a representation between 40 - 60% of the Supervisory Board, the Management Board and the four management levels below the Management Board. The * acknowledges explicitly non-binary genders and Zalando is committed to actively including candidates who identify as non-binary.

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 and in addition the third and forth management level below the Management Board have been determined as follows:

- at least 40% women and at least 40% men for the Supervisory Board;
- at least 40% women and at least 40% men for the Management Board;
- at least 40% women and at least 40% men for the first four management levels below the Management Board.

Zalando determines the deadline for target achievement in each case to be 31 December 2023.

As of December 31, 2019, 33.3% women are represented on the Supervisory Board, 0% women are represented on the Management Board, 33% women are represented on the first management level below the Management Board and 23% women are represented on the second management level below the Management Board.

6.1.5 Takeover Law Disclosures Pursuant to Sections 289a (1), 315a (1) HGB and Explanatory Report[24]

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 section 3.5 Notes to the Consolidated Financial Statements note 20 Equity.

Restrictions Relating to Voting Rights or the Transfer of Shares

At the end of the reporting year, ZALANDO SE had 4,167,899 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 2019, Kinnevik AB, Anders Holch Povlsen and Baillie Gifford & Co. 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 – 2019 in Review.

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 is determined by the Supervisory Board.

The general meeting passes 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 two-thirds' majority of the valid votes cast or, if at least one-half of the share capital is represented, a 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

24) 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.

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 9,446,929 by issuing up to 9,446,929 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 2,738,261 by issuing up to 2,738,261 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 are 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 share capital of the company is conditionally increased by up to EUR 1,522,269 against contribution in cash and in kind by issuing up to 1,522,269 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 2019). The Conditional Capital 2019 may be used only to fulfill the subscription rights granted to the Management Board of ZALANDO SE in connection with the Long Term Incentive 2018 in accordance with the resolution of the annual general meeting on May 22, 2019 under agenda item 7. The conditional capital increase will be implemented only to the extent that the holders of the granted subscription rights exercise their right to subscribe for shares of ZALANDO SE and the company grants no treasury shares or cash payments to fulfil the subscription rights. The new shares under the conditional capital will be issued for the minimum issue amount pursuant to Section 9 (1) AktG.

The new shares from the Conditional Capital 2013, the Conditional Capital 2014, the Conditional Capital 2015, the Conditional Capital 2016 and the Conditional Capital 2019 participate in the profits from the beginning of the fiscal year in which they are issued; notwithstanding this, the new shares 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, the Long Term Incentive LTI 2018 and the Long Term Incentive LTI 2019 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 and LTI 2019 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 the right to terminate the agreement and accelerate repayment or, for factors, the right to terminate the agreement or renegotiate the contractual terms.

6.1.6 Remuneration Report[25]

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 the fiscal year 2019.

Remuneration of the Members of the Management Board

Remuneration of David Schneider, Robert Gentz and Rubin Ritter

Principles of the Remuneration System

The remuneration system for the Management Board has, in our view, 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

David Schneider, Robert Gentz and Rubin Ritter (the "Co-CEOs") receive a gross annual fixed base salary of EUR 65,000 (each). The fixed base salary is paid in monthly installments and at least equals the statutory annual minimum salary required in the respective year for an exemption from statutory health insurance.

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 34,630 in fiscal year 2019 (prior year: EUR 27,180). 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)

Long-Term Incentive 2018 (LTI 2018)

Each Co-CEO was granted 1,750,000 options for the five-year contract term under the LTI 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 their service contracts in August 2018 and then increased by 5%.

25) 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 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 Co-CEO is removed from office as member of the Management Board 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 Co-CEO 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. We believe that this is a challenging criterion as it requires that the company outperform the expected continued strong growth of the European online fashion retail market by a factor of roughly 2. At the time when the remuneration system for the Co-CEOs was established, the online European fashion retail industry was projected to grow at a CAGR of 7%[26] over 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 this adjusted consolidated revenue is 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.

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 in steps, with each 0.5ppt of CAGR below 15% resulting in a 10% pay-out reduction, the last step being (< 11.0% and ≥ 10.0%); below 10% CAGR the pay-out is zero:

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

Performance Criterion

CAGR	Exercisable options (as % of the 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 expiration of a waiting period of 4 years commencing on the effective date 1 December 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 at the exercise date exceeds the exercise price of EUR 47.44. This amount is limited to a maximum of EUR 97.14 per option. 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 Co-CEOs do not include provisions on claims for restitution on the part of the company against the members of the Management Board 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 members of the Management Board 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

	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**	**0**	**47.44**
Outstanding as of Jan 1, 2019	**1,750,000**	**47.44**	**1,750,000**	**47.44**	**1,750,000**	**47.44**
Granted during the year	0	–	0	–	0	–
Forfeited during the year	0	–	0	–	0	–
Exercised during the year	0	–	0	–	0	–
Outstanding as of Dec 31, 2019	**1,750,000**	**47.44**	**1,750,000**	**47.44**	**1,750,000**	**47.44**
Exercisable as of Dec 31, 2019	**–**	**47.44**	**–**	**47.44**	**–**	**47.44**
Weighted average remaining contractual life of options outstanding (in years)						
As of Dec 31, 2018		7.8		7.8		7.8
As of Dec 31, 2019		6.8		6.8		6.8
Weighted average share price (in EUR) for options exercised in						
2018		–		–		–
2019		–		–		–

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

Stock Option Program 2013 (SOP 2013)

Before the introduction of the LTI 2018, the Co-CEOs participated, among other things, in SOP 2013. The vesting period of SOP 2013 expired in November 2018. The SOP 2013 options were granted to the Co-CEOs in fiscal year 2013. SOP 2013 consists of options that entitle each Co-CEO 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 requires 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

	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	**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
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**
Outstanding as of Jan 1, 2019	**639,540**	**15.63**	**639,540**	**15.63**	**2,900,771**	**14.77**
Granted during the year	0	–	0	–	0	–
Forfeited during the year	0	–	0	–	0	–
Exercised during the year*	0	–	0	–	170,571	1.00
Outstanding as of Dec 31, 2019	**639,540**	**15.63**	**639,540**	**15.63**	**2,730,200**	**15.63**
Exercisable as of Dec 31, 2019	**639,540**	**15.63**	**639,540**	**15.63**	**2,730,200**	**15.63**
Weighted average remaining contractual life of options outstanding (in years)						
As of Dec 31, 2018						
As of Dec 31, 2019						
Weighted average share price (in EUR) for options exercised in						
2018		–		–		45.95
2019		–		–		40.28

*) 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 in 2018 and 170,571 in 2019.

Stock Option Program 2011 (SOP 2011)

Before the introduction of the LTI 2018, the Co-CEOs participated among others in the Stock Option Program SOP 2011. The options of SOP 2011 were granted to the Co-CEOs in fiscal year 2011. SOP 2011 consists of options that entitle each Co-CEO 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 SOP 2011 vested in October 2018. The options can be exercised for an unlimited period 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 SOP 2011.

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

SOP 2011

	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 Jan1, 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**
Outstanding as of Jan1, 2019	**635,800**	**5.65**	**635,800**	**5.65**	**74,800**	**5.65**
Granted during the year	0	–	0	–	0	–
Forfeited during the year	0	–	0	–	0	–
Exercised during the year	0	–	0	–	0	–
Outstanding as of Dec 31, 2019	**635,800**	**5.65**	**635,800**	**5.65**	**74,800**	**5.65**
Exercisable as of Dec 31, 2019	**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, 2018		Unlimited		Unlimited		Unlimited
As of Dec 31, 2019		Unlimited		Unlimited		Unlimited
Weighted average share price (in EUR) for options exercised in						
2018		44.87		44.87		43.22
2019		–		–		–

Other Notes

For the duration of their employment, any professional activities undertaken by the Co-CEOs 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 are neither 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 the Co-CEOs from working for companies in direct or indirect competition with the Zalando Group or that are affiliated with competitors of this kind.

The service contracts between the Co-CEOs and the company are valid until 30 November 2023 and can only be terminated for good cause during this period. When a Co-CEO is dismissed as member of the Management Board, the service contract does not end automatically.

Pursuant to the respective provisions of the AktG (German Stock Corporation Act), the Co-CEOs 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 Co-CEOs or their related parties and the company or their subsidiaries.

Procedure for Determining the Remuneration System for the Co-CEOs

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

In 2017 and 2018, in the course of the design and introduction of the new remuneration system for the Co-CEO's, the remuneration committee conducted such a review, 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 similar-sized (M)DAX companies from various industries, and with an international sector specific group, including similar-sized technology-driven companies located in Europe and US, as well as the recommendations of the German Corporate Governance Code.

The Supervisory Board approved the new structure, amounts and terms and submitted the proposed remuneration system for the Co-CEOs 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 LTI 2018 was lowered by 5% and a larger part of options was subjected to a longer waiting period (43% vs. 20%).

The service contracts with the Co-CEOs that implemented the new remuneration system were concluded in August 2018 for a 5-year term commencing on 1 December 2018.

Amount of Compensation for 2019

The tables below show the Co-CEOs compensation in accordance with the recommendations of the German Corporate Governance Code as of 7 February 2017 and the requirements of Sections 314 and 315 HGB (German Commercial Code) 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, must not be included in total compensation as recommended under the Code. The company does not provide any company pension entitlements to the Co-CEOs.

Robert Gentz
Member of the Management Board

	Benefits granted (Code)				Benefits received (Code)		Benefits (GAS 17)	
IN EUR	2019	2019 (min.)	2019 (max.)	2018	2019	2018	2019	2018
Non-performance-based remuneration								
Fixed compensation	65,000	65,000	65,000	188,750	65,000	188,750	65,000	188,750
Fringe benefits	10,825	10,825	10,825	5,956	10,825	5,956	10,825	5,956
Total	**75,825**	**75,825**	**75,825**	**194,706**	**75,825**	**194,706**	**75,825**	**194,706**
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)	–	–	–	–	–	–	–	–
LTI 2018 (2018 – 2023)**	–	–	–	19,151,015	–	–	–	19,151,015
Total	**–**	**–**	**–**	**19,151,015**	**–**	**14,741,958**	**–**	**19,151,015**
Pension expense	–	–	–	–	–	–	n.a.	n.a.
Total	**75,825**	**75,825**	**75,825**	**19,345,721**	**75,825**	**14,936,664**	**75,825**	**19,345,721**

*) 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 did not take place until fiscal year 2018.
**) Comprises all options granted under the LTI 2018 for the five-year contract term.

David Schneider
Member of the Management Board

	Benefits granted (Code)				Benefits received (Code)		Benefits (GAS 17)	
IN EUR	2019	2019 (min.)	2019 (max.)	2018	2019	2018	2019	2018
Non-performance-based remuneration								
Fixed compensation	65,000	65,000	65,000	188,750	65,000	188,750	65,000	188,750
Fringe benefits	12,177	12,177	12,177	11,532	12,177	11,532	12,177	11,532
Total	**77,177**	**77,177**	**77,177**	**200,282**	**77,177**	**200,282**	**77,177**	**200,282**
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)	–	–	–	–	–	–	–	–
LTI 2018 (2018 – 2023)**	–	–	–	19,151,015	–	–	–	19,151,015
Total	**–**	**–**	**–**	**19,151,015**	**–**	**14,741,958**	**–**	**19,151,015**
Pension expense	–	–	–	–	–	–	n.a.	n.a.
Total	**77,177**	**77,177**	**77,177**	**19,351,297**	**77,177**	**14,942,240**	**77,177**	**19,351,297**

*) 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 did not take place until fiscal year 2018.

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

Rubin Ritter
Member of the Management Board

	Benefits granted (Code)				Benefits received (Code)		Benefits (GAS 17)	
IN EUR	2019	2019 (min.)	2019 (max.)	2018	2019	2018	2019	2018
Non-performance-based remuneration								
Fixed compensation	65,000	65,000	65,000	188,750	65,000	188,750	65,000	188,750
Fringe benefits	11,628	11,628	11,628	9,692	11,628	9,692	11,628	9,692
Total	**76,628**	**76,628**	**76,628**	**198,442**	**76,628**	**198,442**	**76,628**	**198,442**
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	–	–
SOP 2013 (2013 – 2018)	–	–	–	–	6,700,029	8,990,000	–	–
LTI 2018 (2018 – 2023)**	–	–	–	19,151,015	–	–	–	19,151,015
Total	**–**	**–**	**–**	**19,151,015**	**6,700,029**	**20,001,028**	**–**	**19,151,015**
Pension expense	–	–	–	–	–	–	n.a.	n.a.
Total	**76,628**	**76,628**	**76,628**	**19,349,457**	**6,776,657**	**20,199,470**	**76,628**	**19,349,457**

*) 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 did not take place until 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 the Co-CEOs Management Board members in accordance with IFRS 2:

Expenses from Share-Based Payments

	Robert Gentz		David Schneider		Rubin Ritter	
IN EUR	Jan 1 – Dec 31, 2019	Jan 1 – Dec 31, 2018	Jan 1 – Dec 31, 2019	Jan 1 – Dec 31, 2018	Jan 1 – Dec 31, 2019	Jan 1 – Dec 31, 2018
Equity-settled	6,502,700	3,491,780	6,502,700	3,491,780	6,502,700	3,491,780
Total	**6,502,700**	**3,491,780**	**6,502,700**	**3,491,780**	**6,502,700**	**3,491,780**

Remuneration of Jim Freeman

Jim Freeman was appointed member of the Management Board as of 1 April 2019. Before that he served the Company as Senior Vice President (SVP) Engineering.

Principles of the Remuneration System

The remuneration system for Jim Freeman has, in our view, 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 incentive. For a significant part, the remuneration is allocated to the share-based variable 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 Jim Freeman.

Non-Performance-Based Remuneration

The gross annual fixed base salary amounts to EUR 800,000. In addition, Jim Freeman was entitled to non-cash payments (such as the use of company cars) and other benefits totaling EUR 9,525 in fiscal year 2019. 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 2019 (LTI 2019)

Jim Freeman was granted options under a new long-term incentive plan, LTI 2019. LTI 2019 is in principle structured similarly to LTI 2018. Like LTI 2018, LTI 2019 is an option program that is linked to the development of Zalando's share price and the growth of Zalando's business during the four-year term of office of Jim Freeman. By way of a one-off grant Jim Freeman was granted for the entire term of his service contract a total number of 274,000 Type C options under LTI 2019. Each option relates to one share in the company and has an exercise price of EUR 1.00.

The number of options which can be exercised is subject to, inter alia, their prior vesting, the expiration of the relevant waiting period and depends on the extent to which the targeted growth of Zalando Group's business under the performance criterion is met during the respective performance period.

Vesting Scheme

17,125 of the options granted to Jim Freeman vest at the end of each quarter starting end of June 2019 until the end of March 2023. As a rule, in all cases of pre-mature termination of the office as 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 Jim Freeman will be forfeited without compensation.

However, by way of an exception from the above, if Jim Freeman is dismissed 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', he 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.

Waiting Period and Exercise Period

Vested options can only be exercised after the expiration of a waiting period of 1, 2, 3 or 4 years commencing on April 1, 2019. 68,500 options are assigned to each waiting period. As of the end of 31 March 2026, all unexercised options will be forfeited without compensation.

Performance Period and Performance Criterion

The performance period commences for all options on 1 April 2019 and corresponds to the applicable waiting period for the respective options resulting in a one-year performance period for options with a one-year waiting period, a two-year performance period for options with a two-year waiting period, etc.

The performance criterion measures the compound annual growth rate ("CAGR") of Zalando group's business during the relevant performance period. The measure for growth of the company's business is the company's consolidated revenue. However, should the share from the company's partner program increase to at least 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.

The percentage of vested options of Jim Freeman 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 a factor of roughly 2. At the time of establishing the remuneration system for Jim Freeman, the online European fashion retail industry was projected to grow at a CAGR of 7%[27] during a five-year 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. At a CAGR below 11%, the payout is 50%:

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

Performance Criterion

CAGR	Exercisable options (as % of the total number of vested options)
CAGR ≥ 15.0%	100%
< 15.0% and ≥ 14.0%	90%
< 14.0% and ≥ 13.0%	80%
< 13.0% and ≥ 12.0%	70%
< 12.0% and ≥ 11.0%	60%
< 11.0%	50%

Non-performing options (i.e. options that could not be exercised due to a shortfall in CAGR) with a four-year waiting period are forfeited without compensation. Non-performing options with a waiting period of less than four years may become exercisable at a later stage, provided that the relevant CAGR increases.

Settlement Value and Cap

Jim Freeman is entitled to the amount by which the share price as per the exercise date exceeds the exercise price of EUR 1.00. This amount is capped at EUR 99.00 per option.

Claims for Restitution

Neither the service contract of Jim Freeman, nor LTI 2019 provides for restitution claims of the company regarding variable compensation paid, e.g. clawback clauses, as the LTI 2019 options are only exercisable once they are definitively vested, the waiting period has expired, and the performance criterion was met. Until then, the options are also affected by 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 LTI 2019 options outstanding of Jim Freeman developed as follows in the reporting period:

LTI 2019

	Jim Freemann	
	Number of options	Weighted average exercise price (in EUR)
Outstanding as of Jan 1, 2019	**0**	**–**
Granted during the year	274,000	1.00
Forfeited during the year	0	–
Exercised during the year	0	–
Outstanding as of Dec 31, 2019	**274,000**	**1.00**
Exercisable as of Dec 31, 2019	**–**	**1.00**
Weighted average remaining contractual life of options outstanding (in years)		
As of Dec 31, 2018		–
As of Dec 31, 2019		6.3
Weighted average share price (in EUR) for options exercised in		
2018		–
2019		–

Other Notes

Any sideline activity of any type during the term of his service contract outside of the Group requires the prior written consent of the Supervisory Board. Approval will be given if the sideline activity does not adversely affect the company's best interests or the performance of the respective member of the Management Board. Moreover, the service contract contains a non-competition clause that prohibits Jim Freeman from working for companies in direct or indirect competition with the Zalando group or that are affiliated with competitors of this kind.

The service contract between Jim Freeman and the company entered into force on April 1, 2019 and is valid until March 31, 2023. The service contract can be terminated only for good cause during this period. When Jim Freeman is dismissed as member of the Management Board, the service contract does not end automatically.

Pursuant to the respective provisions of the AktG (German Stock Corporation Act), Jim Freeman is 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 contract, there are no service or employment contracts between Jim Freeman or his related parties and the company or their subsidiaries.

Remuneration of David Schröder

David Schröder was appointed member of the Management Board as of April 1, 2019. Before that he served the Company as SVP Convenience.

Principles of the Remuneration System

The remuneration system for David Schröder shares the simple and transparent structure of the compensation of the other members of the Management Board. It consists, besides customary fringe benefits, of two components only: an annual fixed base salary and a share-based variable long-term incentive. For a significant 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 David Schröder.

Non-Performance-Based Remuneration

The gross annual fixed base salary amounts to EUR 500,000. In addition, David Schröder is entitled to non-cash payments (such as the use of company cars) and other benefits totaling EUR 9,101 in fiscal year 2019. 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 2019 (LTI 2019)

David Schröder was granted options under a new long-term incentive plan, LTI 2019. LTI 2019 is structured in a similar way as LTI 2018. Like LTI 2018, LTI 2019 is an option program that is linked to the development of Zalando’s share price and the growth of Zalando’s business during the four-year term of office of David Schröder. By way of a one-off grant David Schröder was granted for the entire term of his service contract 400,000 Type A options and 110,000 Type B options. Each option relates to one share in the company: Type A options have an exercise price of EUR 28.84 and Type B options have an exercise price of EUR 1.00.

The number of options which can be exercised is subject to, inter alia, their prior vesting, the expiration of the relevant waiting period and depends on the extent to which the targeted growth of Zalando Group’s business under the performance criterion is met during the respective performance period.

Vesting Scheme

The options granted to David Schröder vest in quarterly tranches over a four-year period. While the Type B options vest on a straight-line basis, Type A options vest from 50,000 options in year 1 to 120,000 options in year 4. As a rule, in all cases of pre-mature termination of the office as 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 David Schröder will be forfeited without compensation.

However, by way of an exception from the above, if David Schröder is dismissed 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', he 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.

Waiting Period and Exercise Period

Vested options can only be exercised after the expiration of a waiting period of 1, 2, 3 or 4 years commencing on April 1, 2019. The number of options assigned to the 4 waiting periods increases from 77,500 to 147,500. As of the end of March 31, 2026, all unexercised options will be forfeited without compensation.

Performance Period and Performance Criterion

The Performance Period commences for all options on April 1, 2019 and corresponds to the applicable waiting period for the respective options resulting in a one-year performance period for options with a one-year waiting period, a two-year performance period for options with a two-year waiting period, etc.

The performance criterion measures the compound annual growth rate ("CAGR") of Zalando's business during the relevant performance period. The measure for growth of the company's business is the company's consolidated revenue. However, should the share from the company's partner program increase to at least 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.

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 a factor of roughly 2. At the time of establishing the remuneration system for David Schröder, the online European fashion retail industry is projected to grow at a CAGR of 7%[28] during a five-year period.

28) CAGR (2018-2023); Source: Euromonitor, fixed exchanges rates. Data for Europe (excluding Russia) includes apparel and footwear, bags / luggage, jewellery 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 in steps with each 0.5ppt of CAGR below 15% resulting in a 10% pay-out reduction, the last step being (< 11.0% and ≥ 10.0%); below 10% CAGR pay-out is zero:

Performance Criterion

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

Settlement Value and Cap

David Schröder is entitled to the amount by which the share price as of the exercise date exceeds the exercise price of EUR 1.00 for Type B options and EUR 29.84 for Type A options. This amount is limited to a maximum of EUR 99.00 per Type B option and EUR 70.16 per Type A option.

Claims for Restitution

Neither the service contract of David Schröder, nor the LTI 2019 provides for restitution claims of the company regarding variable compensation paid, e.g. clawback clauses, as the LTI 2019 options are only exercisable once they are definitively vested, the waiting period has expired, and the performance criterion was met. Until then, the options are also affected by 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 2019 of David Schröder developed as follows in the reporting period:

LTI 2019

	David Schröder	
	Number of options	Weighted average exercise price (in EUR)
Outstanding as of Jan 1, 2019	**0**	**–**
Granted during the year	510,000	23.62
Forfeited during the year	0	–
Exercised during the year	0	–
Outstanding as of Dec 31, 2019	**510,000**	**23.62**
Exercisable as of Dec 31, 2019	**–**	**23.62**
Weighted average remaining contractual life of options outstanding (in years)		
As of Dec 31, 2018		–
As of Dec 31, 2019		6.3
Weighted average share price (in EUR) for options exercised in		
2018		–
2019		–

Other Notes

Any sideline activity of any type during the term of his service contract outside of the group requires the prior written consent of the Supervisory Board. The approval will be given if the sideline activity does not adversely affect the company's best interests or the performance of David Schröder. Moreover, the service contract contains a non-competition clause that prohibits David Schröder from working for companies in direct or indirect competition with the Zalando group or that are affiliated with competitors of this kind.

The service contract between David Schröder and the company entered into force on April 1, 2019 and is valid until March 31, 2023. The service contract can be terminated only for good cause during this period.

Pursuant to the respective provisions of the AktG (German Stock Corporation Act), David Schröder is 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 contract, there are no service or employment contracts between David Schröder or his related parties and the company or their subsidiaries.

Procedure for Determining the New Remuneration Systems for Jim Freeman and David Schröder

The Supervisory Board has set up a remuneration committee consisting of four members, all of whom are considered independent within the meaning of the German Corporate Governance Code. 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.

In 2018, the remuneration committee performed such a review in several meetings in the context of the design and introduction of the new remuneration system for the Co-CEOs Gentz, Ritter and Schneider. In this process, the remuneration committee was supported by independent external advisors. 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 and an international sector specific group. After confirming that the research is still relevant for evaluating the remuneration of members of the Management Board, it served as the basis for assessing the remuneration of Jim Freeman and David Schröder at the beginning of 2019. Although there are certain differences between the different compensation packages that reflect the different roles (Co-CEO, CTO and CFO respectively), they share, in principle, the same or similar elements (e.g. compensation components, type of options) and underlying mechanics (e.g. performance hurdle).

The remuneration committee proposed the remuneration for the new members of the Management Board Freeman and Schröder, amounts and terms to the Supervisory Board which discussed and approved them. The Supervisory Board continues to believe that the entrepreneurial risk and return profile also reflected in the remuneration systems for the new members of the Management Board Freeman and Schröder best fit the needs of Zalando as a high-growth company.

Amount of Compensation for 2019

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 (German Commercial Code) 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 disclosing 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, must not 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.

Jim Freeman (since April 2019)
Member of the Management Board

	Benefits granted (Code)				Benefits received (Code)		Benefits (GAS 17)	
IN EUR	2019	2019 (min.)	2019 (max.)	2018	2019	2018	2019	2018
Non-performance-based remuneration								
Fixed compensation	600,000	600,000	600,000	–	600,000	–	600,000	–
Fringe benefits	9,525	9,525	9,525	–	9,525	–	9,525	–
Total	**609,525**	**609,525**	**609,525**	**–**	**609,525**	**–**	**609,525**	**–**
Performance-based remuneration								
Short-term incentives (non-stock-based)								
One-year variable compensation	475,000	475,000	475,000	–	475,000	–	475,000	–
Long-term incentives (stock-based)								
Multi-year variable compensation								
LTI 2019 (2019 – 2023)*	7,930,058	–	27,126,000	–	–	–	7,930,058	–
Total	**8,405,058**	**475,000**	**27,601,000**	**–**	**475,000**	**–**	**8,405,058**	**–**
Pension expense	–	–	–	–	–	–		
Total	**9,014,583**	**1,084,525**	**28,210,525**	**–**	**1,084,525**	**–**	**9,014,583**	**–**

*) Comprises all options granted under the LTI 2019 for the four-year contract term.

David Schröder (since April 2019)
Member of the Management Board

IN EUR	Benefits granted (Code)				Benefits received (Code)		Benefits (GAS 17)	
	2019	2019 (min.)	2019 (max.)	2018	2019	2018	2019	2018
Non-performance-based remuneration								
Fixed compensation	375,000	375,000	375,000	–	375,000	–	375,000	–
Fringe benefits	9,101	9,101	9,101	–	9,101	–	9,101	–
Total	**384,101**	**384,101**	**384,101**	**–**	**384,101**	**–**	**384,101**	**–**
Performance-based remuneration								
Short-term incentives (non-stock-based)								
One-year variable compensation	–	–	–	–	–	–	–	–
Long-term incentives (stock-based)								
Multi-year variable compensation								
SOP 2014*	–	–	–	–	1,471,016	–	–	–
LTI 2019 (2019 – 2023)**	5,214,014	–	38,954,000	–	–	–	5,214,014	–
Total	**5,214,014**	**–**	**38,954,000**	**–**	**1,471,016**	**–**	**5,214,014**	**–**
Pension expense	–	–	–	–	–	–		
Total	**5,598,115**	**384,101**	**39,338,101**	**–**	**1,855,117**	**–**	**5,598,115**	**–**

*) Relates to the exercise of options under SOP 2014, a program granted to David Schröder before entering the Management Board in April 2019.
**) Comprises all options granted under the LTI 2019 for the for-year contract term.

The following table shows the total expense recognized for share-based payment plans of Jim Freeman and David Schröder in accordance with IFRS 2:

Expenses from Share-Based Payments

IN EUR	Jim Freeman		David Schröder	
	Jan 1 – Dec 31, 2019	Jan 1 – Dec 31, 2018	Jan 1 – Dec 31, 2019	Jan 1 – Dec 31, 2018
Equity-settled	2,615,769	–	2,091,705	–
Total	**2,615,769**	**–**	**2,091,705**	**–**

Remuneration of Supervisory Board Members

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

According to the Articles of Association, every member of the Supervisory Board receives annual fixed remuneration of EUR 65,000. The chairperson of the Supervisory Board receives fixed remuneration of EUR 150,000 p.a. and the deputy chairman of the Supervisory Board receives fixed remuneration of EUR 90,000 p.a. Supervisory Board members acting as members of the audit committee receive additional fixed remuneration of EUR 15,000. The chairperson of the audit committee receives 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 the 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 of the members of the Supervisory Board for fiscal year 2019 breaks down as follows:

Supervisory Board Remuneration

IN EUR	2019	2018
Cristina Stenbeck (since May 22, 2019)	91,896	0
Lothar Lanz (until May 22, 2019)	63,915	165,000
Anders Holch Povlsen (since December 9, 2013)	90,000	90,000
Alexander Samwer (since December 9, 2013)	65,000	65,000
Jørgen Madsen Lindemann (since May 31, 2016)	80,000	80,000
Konrad Schäfers (since June 2, 2015)	80,000	80,000
Dylan Ross (until January 15, 2018)	0	2,500
Beate Siert (since June 2, 2015)	65,000	65,000
Shanna Prevé (since May 31, 2017)	25,179	65,000
Dominik Asam (since May 31, 2017)	38,736	100,000
Anthony Brew (since May 23, 2018)	65,000	39,643
Kelly Bennett (since May 22, 2019)	49,011	0
Mariella Röhm-Kottmann (since May 22, 2019)	61,264	0
Total	**775,000**	**752,143**

7.1 Independent Auditor's Report

To ZALANDO SE

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

Opinions

We have audited the annual financial statements of ZALANDO SE, Berlin, which comprise the balance sheet as at December 31, 2019, and the income statement for the fiscal year from January 1 to December 31, 2019 and notes to the financial statements, including the recognition and measurement policies presented therein. In addition, we have audited the management report of ZALANDO SE, which is combined with the group management report, for the fiscal year from January 1 to December 31, 2019. In accordance with the German legal requirements, we have not audited the information included in the statement on corporate governance in accordance with Section 289f HGB contained in the corporate governance report in the management report as well as the comments marked as unaudited in the management report.

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

— the accompanying annual financial statements comply, in all material respects, with the requirements of German commercial law applicable to business corporations and give a true and fair view of the assets, liabilities and financial position of the company as at December 31, 2019 and of its financial performance for the fiscal year from January 1 to December 31, 2019 in compliance with German legally required accounting principles, and
— the accompanying management report as a whole provides an appropriate view of the company's position. In all material respects, this management report is consistent with the annual financial statements, complies with German legal requirements and appropriately presents the opportunities and risks of future development. Our opinion on the management report does not cover the content of the comments marked as unaudited in the management report or the content of the statement on corporate governance pursuant to Section 289f HGB contained in the corporate governance report of the management report.

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

Basis for the Opinions

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

Key Audit Matters in the Audit of the Annual Financial Statements

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the annual financial statements for the fiscal year from January 1 to December 31, 2019. These matters were addressed in the context of our audit of the annual financial statements as a whole, and in forming our opinion thereon; we do not provide a separate opinion on these matters.

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

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

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

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

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

Auditor's Response

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

Moreover, as part of the substantive audit procedures, we obtained documentation (delivery slips, invoices, payment receipts) for a test of sales based on mathematical-statistical assumptions regarding the existence of revenue in order to determine whether the revenue recognized was based on a corresponding delivery of merchandise. We also verified the clerical accuracy of the expected returns as determined by the executive directors of ZALANDO SE. We compared the assumed month-specific, payment method-specific and country-specific rate of returns with actual historical month-specific, payment method-specific and country-specific rates of returns, among other things, taking seasonal influences into account and analyzed them. In order to evaluate the assumed month-specific, payment method-specific and country-specific rate of returns, we also compared this to the merchandise actually returned by the time we concluded our audit.

Our procedures did not lead to any reservations relating to the measurement of revenue from the dispatch of merchandise, taking expected returns into account.

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

2) Subsequent Measurement of Merchandise Inventory

Reasons Why the Matter was Determined to Be a Key Audit Matter
The company's merchandise inventory is continuously subject to risks associated with existing and potential future excess stocks, which are sold with high discounts through distance retail or are disposed of outside of distance retail. Write-downs on estimated future excess stocks as well as existing excess stocks are calculated at the end of the reporting period and recognized in the annual financial statements.

ZALANDO 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.

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 additional quality-determining features ("BCD" and "never-out-of-stock" goods) 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, we refer to the company's disclosures in Notes 3.1.2 (Accounting and Valuation Methods) and 3.1.3 (Notes to the Balance Sheet) in the Notes to the Financial Statements.

Other Information

The Supervisory Board is responsible for the report of the Supervisory Board. In all other respects, the executive directors are responsible for the other information. Other information comprises the information included in the statement on corporate governance pursuant to Section 289f HGB contained in the corporate governance report in the management report as well as the comments marked as unaudited in the management report and the remaining components of the report on the annual financial statements and the combined management report, with the exception of the audited annual financial statements and management report as well as our independent auditor's report, in particular:

— the responsibility statement contained in the responsibility statement by the Management Board pursuant to Section 264 (2) Sentence 3 HGB and Section 289 (1) Sentence 5 HGB
— the "Report of the Supervisory Board" section.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Other Legal and Regulatory Requirements

Further information pursuant to Art. 10 of the EU Audit Regulation

We were elected as auditor by the annual general meeting on May 22, 2019. We were engaged by the Supervisory Board on July 30, 2019. We have been the auditor of ZALANDO SE without interruption since fiscal year 2010. ZALANDO SE has been a corporation geared to the capital market pursuant to Section 264d HGB since 2014.

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

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

- review of the company's voluntarily prepared half-year financial statements as at June 30, 2019
- 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
- assurance services with regard to financial information required by law
- translation services

German Public Auditor responsible for the engagement

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

Berlin, February 25, 2020

Ernst & Young GmbH
Wirtschaftsprüfungsgesellschaft

Ludwig	Haas
Wirtschaftsprüfer	Wirtschaftsprüfer
[German Public Auditor]	[German Public Auditor]

8.1 Glossary

Active Customers

We define active customers as the number of customers who have placed at least one order in the last 12 months during the reporting period, irrespective of cancellations or returns.

Adjusted EBIT

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

Adjusted EBITDA

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

Average Basket Size

We define the average basket size as the gross merchandise volume (including the gross merchandise volume from our Partners Program) after cancellations and returns and including VAT, divided by the number of orders in the last 12 months of the reporting period. The gross merchandise volume is defined as the total amount spent by our customers (including VAT) less cancellations and returns during the last twelve months.

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).

GMV

GMV (gross merchandise volume) is defined as the value of all merchandise sold to customers after cancellations and returns and including VAT, dynamically reported. 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.

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.

8.2 Imprint

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Statement relating to the future
The financial statements and combined management report contain statements that relate to the future and are based on assumptions and estimates made by the management of ZALANDO SE. Even if the management is of the opinion that these assumptions and estimates are appropriate, the actual development and the actual future results may vary from these assumptions and estimates as a result of a variety of factors. These factors include, for example, changes to the overall economic environment, the statutory and regulatory conditions in Germany and the EU and changes in the industry. ZALANDO SE makes no guarantee and accepts no liability for future development and the actual results achieved in the future matching the assumptions and estimates stated in this annual report. It is neither the intention of ZALANDO SE nor does ZALANDO SE accept a special obligation to update statements related to the future in order to align them with events or developments that take place after this report is published.

The financial statements and combined management report are available in English. If there are variances, the German version has priority over the English translation.