Financial Statements and Combined Management Report 2020

Zalando.

The Starting Point for Fashion.

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Report of the Supervisory Board

Dear Shareholders,

The world changed in 2020: the COVID-19 pandemic has fundamentally impacted our lives, transforming both our social and business routines completely. The entire industry has been confronted with challenges that have prompted needs to transform. The Zalando vision to become the Starting Point for Fashion has remained intact and has enabled Zalando to accelerate its platform transition in these times. We have witnessed both a pronounced consumer shift toward online shopping and an urgent need for digitization within the fashion industry. Zalando was able to become part of a range of solutions, to give important leverage to its brand partners, to discover new partners to add to the platform and to drive increased support for offline retailers by extending its Partner Program and Connected Retail program. Despite a high degree of unpredictability and volatility in the overall market environment in 2020, Zalando delivered a very strong financial performance, significantly outperforming its initial full-year guidance both in terms of business growth and profit generation.

Ever since the start of the pandemic, the Management Board has made the continued health, ongoing safety and well-being of all Zalando employees the utmost priority. The Supervisory Board appreciates these efforts and the consistent commitment of the Management Board, senior management and all employees. The reciprocal commitment that we have witnessed among the teams has been inspiring.

We expect that the year 2021 will continue to be impacted by the pandemic, but we are confident that Zalando will continue to progress on its journey to become the Starting Point for Fashion with the support and for the benefit of its employees, partners, brands, customers 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. In particular, the Management Board consulted the Supervisory Board on the group's general strategy and the crisis management measures in handling the COVID-19 pandemic. The Supervisory Board was directly involved in all material decisions and in giving input to the comprehensive COVID-19 pandemic plan and any related material decisions. Transactions requiring approval were presented by the Management Board.

Further Information
Corporate Governance Statement

The Supervisory Board – from top left to bottom right:
Jennifer Hyman Member of the Supervisory Board, member of the remuneration committee, **Anders Holch** Povlsen Member of the Supervisory Board, member of the nomination committee, **Anika Mangelmann** Member of the Supervisory Board, member of the remuneration committee, **Jørgen Madsen Lindemann** Member of the Supervisory Board, chairperson of the remuneration committee, member of the audit committee, member of the nomination committee, **Cristina Stenbeck** Chairperson of the Supervisory Board, chairperson of the nomination committee, **Matti Ahtiainen** Member of the Supervisory Board, member of the audit committee, **Kelly Bennett** Deputy chairperson of the Supervisory Board, member of the audit committee, member of the remuneration committee, **Mariella Röhm-Kottmann** Member of the Supervisory Board, chairperson of the audit committee**, Jade Buddenberg** Member of the Supervisory Board

Meetings of the Supervisory Board and its Committees

The plenum of the Supervisory Board held nine meetings in fiscal year 2020, the audit committee held six meetings, the remuneration committee held six meetings and the nomination committee held one meeting. The Supervisory Board established a committee for the issuance of a dual tranche of convertible bonds, which held two meetings. In addition, the Supervisory Board passed six circular resolutions. The Supervisory Board and its committees also convened regularly 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 extraordinary meeting and recused himself once from discussions on a particular agenda item in one meeting due to a conflict of interest. Matti Ahtiainen was unable to attend one extraordinary meeting of the Supervisory Board. Jennifer Hyman was unable to attend one extraordinary meeting of the Supervisory Board and two meetings of the remuneration committee. The other members of the Supervisory Board attended all meetings of the Supervisory Board and all meetings of their respective committees.

Due to the COVID-19 pandemic, all but one meeting were held as video conferences.

Overview of Plenary and Committee Meetings and Attendance on an Individual Basis in Fiscal Year 2020

	Tenure	Plenum	Audit Committee	Remuneration Committee	Nomination Committee	Convertible Bond Committee
Matti Ahtiainen	Since June 2020	4 / 5	4 / 4	--		2 / 2
Kelly Bennett	Deputy Chairperson, since May 2019	9 / 9	6 / 6	4 / 4	--	--
Anthony Brew	May 2018 – June 2020	4 / 4	--	--	--	--
Jade Buddenberg	Since June 2020	5 / 5	--	--	--	--
Jennifer Hyman	Since June 2020	4 / 5	--	2 / 4	--	--
Jørgen Madsen Lindemann	Since May 2016	9 / 9	6 / 6	6 / 6	1 / 1	--
Anika Mangelmann	Since June 2020	5 / 5	--	4 / 4	--	--
Anders Holch Povlsen	Since December 2013	8 / 9	--	--	1 / 1	--
Mariella Röhm-Kottmann	Since May 2019	9 / 9	6 / 6	--	--	2 / 2
Alexander Samwer	December 2013 – June 2020	4 / 4	--	2 / 2	--	--
Konrad Schäfers	June 2015 – June 2020	4 / 4	2 / 2	--	--	--
Beate Siert	June 2015 – June 2020	4 / 4	--	2 / 2	--	--
Cristina Stenbeck	Chairperson, since May 2019	9 / 9	--	2 / 2	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 development of the 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, 2020, the Supervisory Board dealt with the financial statements for 2019, the consolidated financial statements for 2019 and the non-financial report 2019 presented by the Management Board. In accordance with the recommendations of the audit committee, the Supervisory Board adopted the financial statements for 2019 and approved the consolidated financial statements for 2019 and the non-financial report 2019.
It followed the proposal of the Management Board for the appropriation of profit for fiscal year 2019. In addition, the Supervisory Board adopted a resolution regarding its report for the fiscal year 2019 and dealt with the agenda for the annual general meeting 2020. The Supervisory Board also reviewed the results of its 2019 efficiency self-assessment. Using a questionnaire, the self-assessment focused 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, its succession planning, the quality of the audit and the company's internal control system and level of information on specific focus topics

the Supervisory Board has been involved with. No noteworthy shortcomings were identified. Further, the Supervisory Board discussed opportunities to further grow the business. Anders Holch Povlsen recused himself from the discussion of this item and left the meeting.

After an initial informal briefing of the Supervisory Board on the effect of the COVID-19 pandemic on the company, at its extraordinary meeting on March 17, 2020, the Supervisory Board received an update on the impact of the COVID-19 pandemic on the company and the strategy of the Management Board to steer the business and protect the employees but also to devise ways to become an impactful part of the solution for the fashion industry. The Supervisory Board put into effect a new weekly reporting practice to be informed of such measures of the Management Board. The Supervisory Board further addressed the treatment of Zalando Equity Plans under U.S. tax rules and solutions for the impacted members of the Management Board and employees.

At its extraordinary meeting on April 2, 2020, the Supervisory Board received an update on the measures taken by the Management Board to manage the effects of the COVID-19 pandemic in order to protect the company as well as its employees and to deepen customer and supplier relationships.

At its ordinary meeting on May 6, 2020, the Supervisory Board received an update on the performance of the company and business development plans in light of the COVID-19 pandemic. The Supervisory Board approved the amended budget for 2020 and the amendment of the employee remuneration program.

At its ordinary meeting on June 23, 2020, the Supervisory Board dealt in particular with the (re-)election of the members of the Supervisory Board's committees and the company's efforts to define its brand personality.

The ordinary meeting on September 30, 2020 was specifically devoted to the company's long-term strategy, and the acquisition of Zurich-based Fision AG.

At its ordinary meeting on December 7, 2020, the Supervisory Board was given the opportunity to discuss in more detail the intention of Rubin Ritter to resign from the Management Board with effect as of the end of the annual general meeting 2021 as well as the consequences for the company, the Management Board and next steps for the Supervisory Board. After Rubin Ritter informed the chairperson of the Supervisory Board Cristina Stenbeck on the Sunday prior to the meeting, a press release was issued immediately thereafter. In the meeting, the Supervisory Board dealt *inter alia* with growth opportunities, the budget for the fiscal year 2021 and the new remuneration systems for the Management Board and the Supervisory Board. The Management Board and the Supervisory Board jointly resolved the annual declaration of conformity with the German Corporate Governance Code.

At its extraordinary meeting on December 16, 2020, the Supervisory Board discussed the strategic direction of the company.

At its extraordinary meeting on December 22, 2020, the Supervisory Board and members of the Management Board discussed implications of Rubin Ritter's decision to step down as member of the Management Board at the end of the next annual general meeting. The Supervisory Board and the Management Board discussed possible next steps to re-allocate Rubin Ritter's business responsibilities.

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 budget for a new warehouse, the acquisition of Fision AG and the delegation of approvals required in connection with the issuance of the convertible bonds 2020 to an ad hoc committee (convertible bond committee).

The Supervisory Board and the Management Board implemented an internal procedure for complying with approval requirements for related party transactions pursuant to Sec. 111a et. seq AktG (German Stock Corporation Act). No such transactions required the approval or disclosure during the reporting year.

Audit Committee

The audit committee analyzed the annual financial statements for 2019 and the consolidated financial statements for 2019, including the combined management report for 2019 and the non-financial report 2019, as well as the quarterly statement for the first quarter, the half-year report and quarterly statement for the third quarter of 2020. 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 2020 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 new remuneration system for the Management Board under the new regulatory body of ARUG II legislation and the German Corporate Governance Code in its amended version from December 16, 2019. Besides this, the remuneration committee addressed the development of the company's employee incentive programs, Management Board's and senior management's contributions in light of the COVID-19 pandemic as well as the company's succession planning.

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.

Convertible Bond Committee

The convertible bond committee discussed major topics relating to the placing and issuing of the convertible bond in July 2020 and took essential decisions regarding the issuing of the convertible bond on behalf of the Supervisory Board.

Conflicts of Interest

Due to a conflict of interest, Supervisory Board member Anders Holch Povlsen decided to abstain from participating and to recuse from discussions on an agenda item in one ordinary meeting. 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 has supported the Supervisory Board members Jennifer Hyman, Matti Ahtiainen, Jade Buddenberg and Anika Mangelmann upon their appointment with a virtual or face-to-face onboarding training including detailed onboarding materials. The topics covered by the onboarding included tasks, rights and duties of the Supervisory Board, set-up and internal organization, conflicts of interest and directors' dealings. Cristina Stenbeck 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. Mariella Röhm-Kottmann received two face-to-face training sessions on the annual general meeting and the role of the chairperson of the annual general meeting. Besides, the company educated the members of the Supervisory Board about regulatory changes, such as the new legal and governance framework for Management Board and Supervisory Board remuneration.

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 2020, 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 2021 and before they were finally attested. The annual financial statements for 2020 and the consolidated financial statements for 2020, as well as the combined management report for the company and the group were audited by the auditor who rendered an unqualified auditor's report 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

Further Information Consolidated Financial Statements

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 2020 and approved the consolidated financial statements for 2020 and the non-financial report 2020. 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.

Corporate Governance

The annual declaration of conformity was issued by the Management Board and the Supervisory Board in December 2020. The complete text of the declaration can be found in section 1.4.1. The declaration is made permanently available in the Corporate Governance section on the company's website.

Further Information
Corporate Governance Statement

More information on corporate governance can be found in the Corporate Governance Statement and the associated declaration. With regard to the remuneration structure for the members of the Management Board for fiscal year 2020 and to avoid repetition, please see the Remuneration Report.

Personnel Matters

Alexander Samwer resigned from his office as a member of the Supervisory Board with effect as of the end of the annual general meeting held on June 23, 2020. Furthermore, the term of office of the employee representatives on the Supervisory Board expired at the end of the annual general meeting on June 23, 2020. The Supervisory Board would like to thank Alexander Samwer, Anthony Brew, Konrad Schäfers and Beate Siert for their valuable contributions to the work of the Supervisory Board and the trust-based cooperation. The annual general meeting 2020 elected Jennifer Hyman as shareholder representative for a term until the end of the general meeting that resolves on the discharge for the fiscal year 2020. Furthermore, the annual general meeting appointed Matti Ahtiainen, Jade Buddenberg and Anika Mangelmann as employee representatives for a term until the end of the general meeting that resolves on the discharge for the fiscal year 2024. Cristina Stenbeck remains chairperson of the Supervisory Board and Kelly Bennett was elected as 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 2020.

Berlin, March 15, 2021

Cristina Stenbeck

1.1 Balance Sheet as of December 31, 2020

Assets

IN EUR M		Dec 31, 2020	Dec 31, 2019
A.	**Fixed assets**		
I.	**Intangible assets**		
1.	Internally generated software	56.0	54.2
2.	Industrial rights and similar rights and assets and licenses in such rights and assets	25.9	11.9
3.	Prepayments and internally generated software under development	28.6	40.8
		110.5	106.9
II.	**Property, plant and equipment**		
1.	Buildings on thrid-party land	0.9	0.6
2.	Plant and machinery	15.6	14.5
3.	Other equipment, furniture and fixtures	32.5	40.7
4.	Prepayments and assets under construction	6.6	6.2
		55.4	62.1
III.	**Financial assets**		
1.	Shares in affiliated companies	963.5	791.9
2.	Loans to affiliated companies	669.5	487.1
3.	Equity investments	0.4	0.4
		1,633.4	1,279.4
		1,799.4	1,448.4
B.	**Current assets**		
I.	**Inventories**		
1.	Raw materials and supplies	10.9	7.8
2.	Merchandise	1,252.4	1,020.4
3.	Prepayments and internally generated software under development	0.2	0.1
		1,263.5	1,028.2
II.	**Receivables and other assets**		
1.	Trade receivables	48.3	28.5
2.	Receivables from affiliated companies	586.2	654.2
3.	Other assets	107.6	116.3
		742.1	799.0
III.	**Securities**	**1,117.7**	**121.9**
IV.	**Cash on hand and bank balances**	**964.4**	**440.5**
		4,087.7	2,389.7
C.	**Prepaid expenses**	**18.6**	**16.4**
D.	**Deferred tax assets**	**24.3**	**6.5**
Total		**5,930.0**	**3,861.0**

Equity and Liabilities

IN EUR M		Dec 31, 2020	Dec 31, 2019
A.	**Equity**		
I.	**Subscribed capital**	**255.3**	**252.8**
	Less nominal value of treasury shares Conditional capital: EUR 92.3m (prior year: EUR 92.7m)	−2.1	−4.2
		253.1	248.7
II.	**Capital reserve**	**1,309.4**	**1,199.4**
III.	**Unappropriated profit**	**369.6**	**199.6**
		1,932.1	1,647.7
B.	**Government grants**	**−0.0**	**−0.0**
C.	**Provisions**		
1	Tax provisions	0.0	0.0
2	Other provisions	553.6	467.5
		553.6	467.6
D.	**Liabilities**		
1	Bonds thereof convertible: EUR 1,000.0m (prior year: EUR 0.0m)	1,000.0	0,0
2	Liabilities to banks	375.0	0,0
3	Prepayments received on account of orders	33.7	35.2
4	Trade payables	1,481.4	1,287.7
5	Liabilities to affiliated companies	352.7	293.5
6	Other liabilities thereof for taxes: EUR 153.6m (prior year: EUR 81.3m) thereof for social security: EUR 0.0m (prior year: EUR 0.0)	198.9	127.6
		3,441.7	1,744.0
E.	**Deferred income**	**2.6**	**1.8**
F.	**Deferred tax liabilties**	**0,0**	**0,0**
Total		**5,930.0**	**3,861.0**

2.1 Income Statement

Statement of Profit and Loss for the Year Ending December 31, 2020

IN EUR M	2020	2019
1. Revenue	7,913.6	6,391.0
2. Other own work capitalized	49.6	40.1
3. Other income thereof income from currency translation: EUR 108.9m (prior year: EUR 46.8m)	179.6	114.2
	8,142.8	6,545.3
4. Cost of materials		
a) Cost of raw materials, consumables and supplies and of purchased merchandise	–4,250.0	–3,539.5
b) Cost of purchased services	–44.9	–9.8
5. Personnel expenses		
a) Wages and salaries	–377.4	–326.7
b) Social security, pension and other benefit costs thereof pension costs: EUR 0.2m (prior year: EUR 0.2m)	–52.6	–46.2
6. Amortization of intangible assets and depreciation of property, plant and equipment	–66.1	–57.9
7. Other operating expenses thereof expenses from currency translation: EUR 104.4m (prior year: EUR 37.2m)	–3,086.6	–2,457.4
	–7,877.7	–6,437.4
8. Income from profit transfers	8.1	4.8
9. Expenses from transfer of losses	–3.5	–10.2
10. Other interest and similar income thereof from afflliated companies: EUR 13.8m (prior year: EUR 14.2m)	43.5	31.9
11. Depreciation on financial assets	0,0	–31.1
12. Interest and similar expenses	–70.6	–27.7
	–22.5	–32.5
13. Income taxes thereof income resulting from changes in deferred taxes: EUR 17.8m (prior year: EUR 14.6m)	–72.6	–39.5
14. Earnings after tax / net profit for the year	170.0	35.9
15. Unappropriated profit from the prior year	199.6	163.7
16. Unappropriated profit	**369.6**	**199.6**

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 was prepared using the nature of expense method in accordance with Section 275 (2) HGB.

The company is based in Berlin and is registered as ZALANDO SE 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 makes use of the option pursuant to Section 248 (2) Sentence 1 HGB to capitalize internally generated intangible assets and amortizes these assets. Amortization is charged using the straight-line method over an estimated economic useful life of three years. 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	4 – 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, shares in other entities are recognized at the lower of cost or, if the impairment is expected to be permanent, net realizable value. The attributable values were calculated based on the capitalized earnings value of the respective investment 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 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. Provisions are recognized using the effective gross method according to which the cost of materials for expected returns is deducted from revenue in addition to the profit share attributable to returns. 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) Sentence 1 HGB) were 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 an ineffective portion is identified or expectations regarding the hedged transaction occurring change, the negative market value of the corresponding derivative financial instrument is recognized in the provision for potential losses through profit and 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 were agreed upon in order to safeguard against short-term liquidity bottlenecks. No hedges were designated for these transactions. Furthermore, only the spot component was included in the hedge for the forward exchange contracts concluded as of December 31, 2019, meaning the interest component is likewise stand-alone. If these derivative financial instruments have negative market values, a provision for potential losses from pending transactions is recognized through 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 48.0m (prior year: EUR 55.2m) 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.

List of Shareholdings Classified as Fixed Financial Assets

The company held shareholdings in the following affiliated companies and equity investments as of December 31, 2020:

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]	Erfurt	EUR
4	Zalando Logistics Mönchengladbach SE & Co. KG[3]	Mönchengladbach	EUR
5	Zalando Logistics Süd SE & Co. KG[3]	Berlin	EUR
6	Zalando Logistics Operations France SAS	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.	Hong Kong, Hong Kong	HKD
21	zLabels China Trading Co. Ltd.	Dongguan, China	CNY
22	ifansho Holding GmbH	Berlin	EUR
23	nugg.ad GmbH	Berlin	EUR
24	Zalando Logistics Operations Polska sp. z o.o.	Gardno, 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	Fision AG	Zurich, Switzerland	EUR

Share of equity held by[1]	Share in capital in % 2020	Net income / loss for 2020 (in EUR m)	Equity (in EUR m)
Directly	100.0	3.0	43.2
Directly	100.0	-2.4	94.9
Directly 2	99.0 1.0	6.4	70.0
Directly 2	99.0 1.0	4.9	100.1
Directly 2	99.0 1.0	3.4	82.4
Directly	100.0	0.6	11.3
Directly 2	99.0 1.0	0.5	2.5
Directly 2	99.0 1.0	0.4	2.3
Directly	100.0	0.3	0.0
Directly	100.0	0.5	0.0
Directly	100.0	0.9	3.2
Directly	100.0	26.4	61.8
Directly	100.0	3.6	19.0
Directly	100.0	0.0	3.1
Directly 2	99,9 0,1	13.1	14.0
Directly	100.0	1.0	0.4
Directly	100.0	-0.1	0.4
Directly	100.0	-3.5	21.1
14	100.0	0.0	0.1
1	100.0	0.0	0.7
20	100.0	-0.4	0.4
Directly	100.0	0.1	2.6
18	100.0	0.2	1.6
2	100.0	0.3	64.0
Directly	100.0	4.0	1.2
Directly 2	99.0 1.0	0.6	7.7
1	100.0	0.0	0.0
1	100.0	0.0	0.0
Directly	100.0	21.9	185.7
Directly	100.0	–3.4	–0.1

No.	Company	Company domicile	Currency
31	Connected Retail GmbH	Berlin	EUR
32	Zalando Beauty Store GmbH	Berlin	EUR
33	Zalando Lounge Logistics Polska sp. z o.o.[4]	Olsztynek, 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.	Bolzano, 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 Stores GmbH & Co. KG	Berlin	EUR
44	Fashion Circle GmbH	Berlin	EUR
45	Zalando Logistics Services SE & Co. KG[3]	Berlin	EUR
46	Zalando BTD 003 GmbH	Berlin	EUR
47	Zalando BTD 007 SE & Co. KG[3]	Berlin	EUR

Equity investments			
48	Le New Black S.A.S.	Paris, France	EUR

1) The numbering refers to the number of the company
2) Net income for 2020 before profit transfer
3) ZALANDO SE is general partner
4) As of Dec 31, 2019
5) As of Jun 30, 2020

Share of equity held by[1]	Share in capital in % 2020	Net income / loss for 2020 (in EUR m)	Equity (in EUR m)
Directly	100.0	0.2	1.7
Directly	100.0	0.0	1.0
Directly	100.0	-0.5	32.8
Directly	98.7	1.1	–13.7
34	100.0	0.0	0.0
2	100.0	0.5	58.1
1 28	99.0 1.0	0.0	2.1
1 28	99.0 1.0	0.0	2.3
Directly	100.0	2.8	108.0
Directly	100.0	-0.6	97.4
Directly 10	99.0 1.0	0.4	2.0
Directly 2	99.0 1.0	0.2	1.7
11 2	99.0 1.0	-3.7	4.6
Directly	100.0	-0.1	0.3
Directly 2	99.0 1.0	0.0	0.0
Directly	100.0	0.0	0.0
Directly 2	99.0 1.0	0.0	0.0

23	33.8	0.0	0.1

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 affiliated companies are receivables from intercompany factoring of EUR 531.1m (prior year: EUR 282.5m) and trade receivables of EUR 54.9m (prior year: EUR 371.4m). Since fiscal year 2019, customer receivables have been transferred almost completely to Zalando Payments GmbH.

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, 255,253,307 (prior year: 252,848,768) no-par value registered shares (Stückaktien) 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 2020, subscribed capital was increased by a total of EUR 2.4m to EUR 255.3m by making partial use of conditional capital 2013, 2014 and 2016. 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 (Stückaktien)	Purpose
Authorized capital 2020	100.3	100,266,384	Cash or non-cash capital increases until June 22, 2025
Conditional capital 2013	8.8	8,817,500	Servicing of subscription rights from SOP 2013
Conditional capital 2014	3.4	3,442,394	Servicing of subscription rights from SOP 2014
Conditional capital 2016	3.3	3,340,236	Servicing of subscription rights from EIP 2016
Conditional capital 2019	1.5	1,522,269	Servicing of subscription rights from LTI 2018
Conditional capital 2020	75.2	75,199,787	Servicing of subscription rights from convertible bonds and /or bonds with warrants or a combination of these instruments until June 22, 2025

Treasury Shares

In 2020, ZALANDO SE issued a total of 2,042,165 treasury shares to employees under employee option programs. In total, the company holds 2,125,734 treasury shares (notional share in share capital of EUR 2,125,734) as of the reporting date, and thus 0.83% of share capital.

Share-Based Payments

The company uses the Stock Option Plans (SOP) and Long Term Incentives (LTI) (SOP 2011, SOP 2013, SOP 2014, LTI 2018, LTI 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	Outstanding options	Weighted average exercise price (in EUR)	Vesting period
SOP 2011: Board	74,800	5.65	3 years
SOP 2013: Board	6,779,835	1.00	4 years
LTI 2018: Board	5,223,983	47.44	4 – 5 years
LTI 2019: Board	682,533	17.79	1 – 4 years
SOP 2014: employee	806,649	23.12	4 years
EIP 2016, 2017, 2018: employee	2,705,673	36.88	4 years
ZOP	783,244	23.84	2 years
VSOP 2017: employee	215,000	50.00	3 years
VSOP 2018: employee	245,974	29.84	2 – 5 years

Capital Reserve

The capital reserve amounts to EUR 1,309.4m (prior year: EUR 1,199.4m). In the fiscal year, the capital reserve included an amount of EUR 43.9m stemming from share-based equity-settled payment awards (prior year: EUR 43.2m). Furthermore, the capital reserve was increased by EUR 24.7m in a capital increase from conditional capital 2013, 2014 and 2016. Due to the issue of treasury shares under option programs and the issue of a convertible bond, the capital reserve increased by EUR 26.0m and by EUR 15.4m, respectively.

The capital reserve includes an amount of EUR 57.5m (prior year: EUR 147.4m) pertaining to treasury shares.

Unappropriated Profit

Unappropriated Profit

IN EUR M	2020	2019
As of Jan 1	199.6	163.7
Earnings after tax/net profit of the year	170.0	35.9
As of Dec 31	**369.6**	**199.6**

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 [“Wertpapierhandelsgesetz”: German Securities Trading Act].

Provisions

Other provisions totaling EUR 553.6m were recognized (prior year: EUR 467.5m). They primarily relate to outstanding invoices for fulfillment expenses (EUR 220.7m), expected returns

(EUR 127.2m), marketing expenses (EUR 133.5m), other outstanding invoices (EUR 27.3m) as well as personnel-related expenses (EUR 9.0m).

Liabilities

The bonds consist of two tranches of convertible bonds placed on July 31, 2020 for a total amount of EUR 1.0bn; EUR 500m each (prior year: EUR 0.0m).

Liabilities to banks comprise bank loans of EUR 375.0m (prior year: EUR 0.0m) that were drawn from the revolving credit facility in the fiscal year.

Under reverse factoring agreements, suppliers' claims against Zalando totaling EUR 449.8m were transferred to various factors as of December 31, 2020 (December 31, 2019: EUR 394.5m), EUR 449.8m thereof to banks (prior year: EUR 394.5m). They were disclosed under trade payables on the face of the balance sheet.

Liabilities to affiliated companies relate primarily to cash pooling liabilities EUR 139.7m (prior year: EUR 139.7m) and trade payables EUR 185.0m (prior year: EUR 153.8m) as of the reporting date.

Other liabilities of EUR 198.9m (prior year. EUR 127.6m) 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 24.3m (prior year: EUR 6.5m). The deferred tax assets of EUR 57.2m (prior year: EUR 35.7m) are mostly comprised of investments held in subsidiaries, the differing valuations of current foreign currency receivables and payables (as a result of unrealized exchange rates) as well as the differing 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 32.9m (prior year: EUR 29.2m) that mainly result from the capitalization of internally generated intangible assets.

Deferred taxes break down as follows:

Deferred Tax Assets and Liabilities

IN EUR M	Deferred tax assets		Deferred tax liabilities		Net balance	
	Dec 31, 2020	Dec 31, 2019	Dec 31, 2020	Dec 31, 2019	Dec 31, 2020	Dec 31, 2019
Intangible assets	0,0	0,0	– 27.4	– 24.9	– 27.4	– 24.9
Property, plant and equipment and financial assets	25.3	11.4	– 0.7	– 1.1	24.6	10.3
Receivables and other assets	1.7	0.1	– 2.2	– 3.1	– 0.5	– 3.0
Provisions and other liabilities	5.2	7.5	– 2.6	– 0.1	2.6	7.4
Share-based payments	25.0	16.7	0,0	0,0	25.0	16.7
Total	**57.2**	**35.7**	**– 32.9**	**– 29.2**	**24.3**	**6.5**
Netting	– 32.9	– 29.2	32.9	29.2	0,0	0,0
Total recognized deferred tax assets and liabilities	**24.3**	**6.5**	**0,0**	**– 0.0**	**24.3**	**6.5**

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, 2020	Dec 31, 2019
Contingent liabilities from rental guarantees	33.5	33.6
thereof to affiliated companies	(33.5)	(33.6)
Joint loan liabilities	2.7	5.6
thereof to affiliated companies	(2.7)	(5.6)
Contingent liabilities from payment guarantees	2.7	4.5
thereof to affiliated companies	(2.7)	(4.5)
Contingent liabilities from customs guarantees	2.6	0,0
thereof to affiliated companies	(2.6)	0,0
	41.5	**43.7**

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.

Beneficiary	Subsidiary	Agreement/Location
G3 Logistics S.a.r.l & Co. KG	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.a.r.l.	Zalando Logistics Mönchen-gladbach SE & Co. KG	Rental agreement, fulfillment space in Mönchengladbach
Goodman Melanite Logistics (Lux) S.a.r.l.	Zalando Logistics Mönchen-gladbach SE & Co. KG	Rental agreement, fulfillment space in Mönchengladbach
Nordea Bank	Zalando Finland Oy	Rental agreement, office space in Helsinki (FIN)
Goodman Cardinal Logistics S.a.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. (formerly VAILOG S.R.L.)	Zalando Logistics Operations Italy S.r.l.	Rental agreement, fulfillment space in Verona (IT)
BEOS Corporate Real Estate Fund Germany III	Zalando Lounge Content So-lutions SE & Co. KG	Rental agreement, office space in Berlin
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
Friday Street Inc. Limited	Anatwine Limited	Rental agreement, office space in Cheltenham (GB)

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.

Beneficiary	Subsidiary	Agreement/Location
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
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
Gmöhling Transportgeräte GmbH	Zalando Lounge Logistics Polska sp z.o.o.	Warehouse equipment

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 167.2m (prior year: EUR 197.8m) (thereof to affiliated companies: EUR 0.0m (as in the prior year)) arising from rental and lease agreements as of the reporting date.

These obligations relate to the following items:

Other Financial Obligations

IN EUR M	
Rental agreements	166.9
Lease agreements	0.3
Total	**167.2**

Rental and lease agreements have a residual term of up to 10 years.

There are also purchase obligations for merchandise from the 2021 spring /summer season as of the reporting date.

Derivative Financial Instruments

As of the reporting date, forward exchange contracts totaled EUR 2,202.1m (prior year: EUR 1,840.2m), some of which displayed a positive market value of EUR 21.4m (prior year: EUR 7.1m) while others displayed a negative market value of EUR 36.1m (prior year: EUR 32.1m).

The option for recognizing 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 with a volume of EUR 28.1m (prior year: EUR 11.9m) with forward exchange contracts totaling EUR 28.1m (prior year: EUR 11.9m) (positive market value: EUR 0.0m (prior year: EUR 0.3m); negative market value: EUR 2.1m (prior year: EUR 0.0m)) in several portfolio hedges in order to hedge the currency risk. The effectiveness is measured prospectively using the critical terms match method and retrospectively using the dollar offset method. All value changes in derivatives are expected to be fully compensated in the future, as the critical features of underlying hedged items and hedging instruments match. The market value of these transactions since the gross method has been applied totals EUR -0.6m and is reported under other assets and other liabilities in the balance sheet.

There were no receivables from the sales of goods to customers that were combined with forward exchange contracts in portfolio hedges applying the gross method as of the reporting date (prior year: volume of EUR 125.6m (positive market value: EUR 0.3m; negative market value: EUR 4.3m)).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 1,892.9m (prior year: EUR 1,398.6m) with forward exchange contracts totaling EUR 1,892.9m (prior year: EUR 1,398.6m) (positive market value: EUR 20.9m (prior year: EUR 0.7m); negative market value: EUR 21.5m (prior year: EUR 26.9m)) 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 stand-alone interest component has a negative market value of EUR 1.6m for which a provision for potential losses from pending transactions has been recognized.

The net method was used to combine expected orders of goods to customers in USD and GBP with a volume of EUR 230.7m (prior year: EUR 156.3m) with forward exchange contracts totaling EUR 230.7m (prior year: EUR 156.3m) (positive market value: EUR 0.2m (prior year: EUR 4.1m); negative market value: EUR 10.8m (prior year: EUR 0.4m)) 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.

In addition, PLN, USD and GBP forward exchange contracts were entered into for which the hedges were either ended due to changed expectations regarding the occurrence of the hedged transaction or which were intended for short-term liquidity bottlenecks and which as such are not part of a valuation unit within the meaning of Section 254 HGB as of the reporting date. These forward exchange contracts have a volume of EUR 50.3m (prior year: EUR 147.8m) (positive market value: EUR 0.3m (prior year: EUR 1.8m); negative market value: EUR 1.7m (prior year: EUR 0.4m)). A corresponding provision for potential losses from pending transactions was recognized equivalent to the negative market value.

3.1.4 Notes to the Income Statement

Revenue

In fiscal year 2020, around 46.3% of revenue related to the Germany/Austria/Switzerland (DACH region) (see following table).

Revenue by Geographical Region

IN EUR M	2020		2019		Change
DACH*	3,667.4	46.34%	2,935.5	45.9%	731.9
Rest of Europe**	4,246.3	53.7%	3,455.5	54.1%	790.8
ZALANDO SE	**7,913.6**	**100.0%**	**6,391.0**	**100%**	**1,522.7**

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

Revenue stems from the sale of merchandise (EUR 6,904.9m), the provision of third-party services (EUR 873.0m), as well as revenue from intercompany charges (EUR 135.7m).

Income and Expenses Relating to Other Periods

Other income comprises income relating to other periods of EUR 29.9m (prior year: EUR 22.0m), mainly from the reversal of provisions. Other expenses comprise expenses relating to other periods of EUR 0.4m (prior year: EUR 2.3m).

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 2020 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, 2020	Jan 1 – Dec 31, 2019
Deferred taxes	17.8	14.6
Current taxes	– 90.3	– 54.1
Total	**– 72.6**	**– 39.5**

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 106.3m (prior year: EUR 83.8m).

3.1.5 Other Notes

Number of Employees

An annual average of 4,992 (prior year: 4,531) persons were employed by the company in the fiscal year:

Average Number of Employees

Commercial	1,635
Technology	1,696
Others	1,661
Total	**4,992**

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 2020 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
Cristina Stenbeck	Entrepreneuer, investor and member of boards of directors	May 22, 2019
Kelly Bennet	Board member and Executive Advisor	May 22, 2019
Jennifer Hyman	Chief Executive Officer and Co-Founder ar Rent the Runway, Inc.	June 23, 2020
Jørgen Madsen Lindemann	Investor	May 31, 2016
Anders Holch Povlsen	Chief Executive Officer of Bestseller A/S	December 12, 2013
Mariella Röhm-Kottmann	Senior Vice President, Head of Corporate Accounting of ZF Friedrichshafen AG	May 22, 2019
Matti Ahtiainen	Employee of Zalando Finland Oy (Technology Controlling)	June 23, 2020
Jade Buddenberg	Employee of ZALANDO SE (Sustainability & Business Development Recommerce)	June 23, 2020
Anika Mangelmann	Employee of ZALANDO SE (Project Manager People & Organisation)	June 23, 2020
Alexander Samwer (Supervisory Board member until June 23, 2020)	Independent internet entrepreneur, Munich, Germany	December 12, 2013
Anthony Brew (Supervisory Board member until June 23, 2020)	Employee of Zalando Ireland Ltd. (Digital Experience)	May 22, 2019
Konrad Schäfers (Supervisory Board member until June 23, 2020)	Employee of ZALANDO SE, Berlin, Germany (Process Excellence)	June 2, 2015
Beate Siert (Supervisory Board member until June 23, 2020)	Employee of ZALANDO SE, Berlin, Germany (Sourcing & Recruiting)	June 2, 2015

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 2020 (prior year: EUR 0.8m). The remuneration of the Supervisory Board members falls due after the annual general meeting in which the consolidated 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	**Memberships in supervisory boards whose establishment is required by law or in comparable domestic or foreign controlling bodies of business enterprises**
Matti Ahtiainen	–
Kelly Bennett (Deputy chairperson)	Ancestry.com (member of the Supervisory Board)
Anthony Brew (Supervisory Board member until June 23, 2020)	–
Jennifer Hyman	The Estée Lauder Companies Inc., USA (member of the Board of Directors)
Mariella Röhm-Kottmann	ZF Services Espana, S.L., Spain (member of the Board of Directors) Compagnie Financière de ZF SAS, France (member of the Supervisory Board, chairperson)
Jørgen Madsen Lindemann*	Turtle Entertainment GmbH, Germany (member of the Advisory Board until September 2020)
Anika Mangelmann	–
Jade Buddenberg	–
Anders Holch Povlsen**	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 IP HK Limited, Hong Kong (member of the Board of Directors) J.Lindeberg Holding (Singapore) Pte. Ltd., Singapore (member of the Board of Directors) Foundation Conservation Carpathia (FCC), Romania (member of the Board of Directors)

*) Mr. Lindemann was also member of Boards of Directors at various foreign group entities of the Modern Times Group MTG until September 2020.

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

Current and Past Mandates of the Supervisory Board

Name of Supervisory Board member	Memberships in supervisory boards whose establishment is required by law or in comparable domestic or foreign controlling bodies of business enterprises
Alexander Samwer (Supervisory Board member until June 23, 2020)	–
Konrad Schäfers (Supervisory Board member until June 23, 2020)	–
Beate Siert (Supervisory Board member until June 23, 2020)	–
Cristina Stenbeck (Chairperson)	Spotify Technology S.A., Sweden (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 from August 2020) GoEuro Corp. (trading under the brand Omio), Delaware USA (member of the Board of Directors until September 2020) Björkö Gård AB, Sweden (member of the Board of Directors until October 2020) Ameriana AB, Sweden (member of the Board of Directors until December 2020) Three Daughters S.à r.l. Luxembourg (member of the Board of Managers until December 2020) CS Stiftelse för Nästa Generation, Sweden (member of the Board of Directors until November 2020) Camsten AB, Sweden (member of the Board of Directors until December 2020) Camshaft Skog AB., Sweden (member of the Board of Directors until December 2020) Äggsjöns Vildmark AB, Sweden (member of the Board of Directors until December 2020) House of Kraft AB, Sweden (member of the Board of Managers until December 2020)

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 M. Freeman, II	Management Board member
David Schröder	Management Board member

The members of the Management Board of ZALANDO SE are not members of a statutory supervisory board or members of a comparable controlling body in Germany or abroad.

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

Total remuneration of the Management Board totaled EUR 4.0m in fiscal year 2020 (prior year: EUR 1.7m). No new option rights were granted in fiscal year 2020 (prior year: 0.8m options as part of the LTI 2019; total fair value: EUR 13.1m).

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 369,592,267.66 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 Section 161 AktG from December 2020 is published on the company's website (https://corporate.zalando.com/en/company/corporate-governance).

Signing of the 2020 Financial Statements

Berlin, March 15, 2021

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 2020

IN EUR M	Acquisition and production cost				
	Jan 1, 2020	Additions	Disposals	Reclassifications	Dec 31, 2020
Intangible assets					
Internally generated software	166.3	25.0	0.2	18.0	209.2
Industrial rights, similar rights and assets and licenses in such rights and assets	52.4	7.2	0.0	17.4	76.9
Prepayments and internally generated software under development	41.8	25.4	1.9	–35.4	30.0
	260.6	57.6	2.1	0,0	316.1
Property, plant and equipment					
Buildings on third-party land	1.0	0.3	0.2	0.1	1.1
Plant and machinery	17.4	0.0	0,0	3.5	21.0
Other equipment, furniture and fixtures	88.6	2.6	5.5	0.7	86.4
Prepayment and assets under construction	6.2	4.7	0.1	–4.3	6.6
	113.2	7.6	5.8	0,0	115.0
Financial Assets					
Shares in affiliated companies	861.8	191.4	13.1	0,0	1,040.0
Loans to affiliated companies	496.0	417.8	242.1	0,0	671.7
Equity investments	2.5	0,0	0,0	0,0	2.5
	1,360.2	609.1	255.2	0,0	1,714.2
	1,734.0	674.3	263.1	0,0	**2,145.3**

	Accumulated amortization, depreciation and write-downs					Carrying amounts	
	Jan 1, 2020	Additions	Disposals	Reclassifications	Dec 31, 2020	Dec 31, 2020	Dec 31, 2019
	112.1	41.1	0.0	0,0	153.1	56.0	54.2
	40.5	10.5	0,0	0,0	51.0	25.9	11.9
	1.0	0.4	0,0	0,0	1.5	28.6	40.8
	153.6	52.0	0.0	0,0	205.6	110.5	106.9
	0.4	0.1	0.2	0,0	0.2	0.9	0.6
	2.9	2.5	0,0	0,0	5.4	15.6	14.5
	47.9	11.5	5.5	0,0	54.0	32.5	40.7
	0,0	0,0	0,0	0,0	0,0	6.6	6.2
	51.1	14.1	5.7	0,0	59.6	55.4	62.1
	69.8	0,0	0.1	–6.8	76.6	963.5	791.9
	9.0	0,0	0,0	6.8	2.2	669.5	487.1
	2.0	0,0	0,0	0,0	2.0	0.4	0.4
	80.8	0,0	0.1	0,0	80.8	1,633.4	1,279.4
	285.6	66.1	5.8	0,0	**345.9**	**1,799.4**	1,448.4

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:

Allianz Global Investors GmbH, Frankfurt/Main, Germany, informed us that its share of voting rights exceeded the threshold of 3% 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).

Baillie Gifford & Co., Edinburgh, United Kingdom, 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).

Mr. Anders Holch Povlsen informed us that his share of voting rights exceeded the threshold of 10% of the voting rights pursuant to Sections 33 and 34 WpHG on September 4, 2018 and came to 10.02% (corresponding to 25,087,078 voting rights) on this day.

T. Rowe Price Group, Inc., Baltimore, Maryland, USA, informed us that its share of voting rights had fallen below the threshold of 5% pursuant to Sections 33 and 34 WpHG on August 20, 2020 and came to 4.93% (corresponding to 12,532,937 voting rights) on this day.

BlackRock, Inc., Wilmington, Delaware, USA, informed us that its share of voting rights exceeded the threshold at the subsidiary level of 3% of the voting rights pursuant to Sections 33 and 34 WpHG on August 24, 2020 and came to 3.30% (corresponding to 8,391,743 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 0.01% (corresponding to 37,547 voting rights), its share of voting rights through instruments pursuant to Section 38 (1) No. 2 WpHG came to 0.01% (corresponding to 13,255 voting rights).

Vanguard World Fund, Wilmington, Delaware, USA, informed us on October 28, 2020 that the company had not 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 January 16, 2019 and on this day came to 3.30% (corresponding to 8,279,806 voting rights). On this day, its share of voting rights through instruments according to Section 38 (1) No. 1 WpHG came to 0.87% (corresponding to 2,188,356 voting rights).

AKO Capital LLP, London, United Kingdom, informed us that its share of voting rights had fallen below the threshold of 3% of the voting rights pursuant to Sections 33 and 34 WpHG on November 18, 2020 and came to 2.92% (corresponding to 7,479,976 voting rights) on this day.

Kinnevik AB (publ), Stockholm, Sweden, informed us on December 22, 2020 that its share of voting rights pursuant to Secs. 33 and 34 WpHG following group restructuring came to 21.11% (corresponding to 54,047,800 voting rights) on December 21, 2020.

4.1 Background to the Group

4.1.1 Business Model

Zalando is a European online fashion and lifestyle platform connecting customers and brand partners. 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 as well as diverse payment options wrapped into an inspirational and personalized digital customer experience. Zalando's assortment of more than 3,500 international brands ranges from popular global brands to fast-fashion and local brands and is complemented by private label products.

Zalando's main customer proposition, Zalando Fashion Store, is extended and enhanced by Zalando Lounge, which offers registered members special offers at reduced prices. The ten brick-and-mortar outlet stores in Berlin, Frankfurt, Cologne, Leipzig, Hamburg, Hanover, Münster, Stuttgart, Mannheim and Ulm opened between 2012 and 2020 serve as an additional sales channel for excess inventory for Zalando and its brand partners. As of September 2020 Zalando is expanding its spectrum of value for European customers further by adding a pre-owned category to its platform (starting with France, Germany, Netherlands, Poland and Spain). 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. Its pan-European logistics network with eleven fulfillment centers allows Zalando to serve its customers throughout Europe. Zalando's management is convinced that the integration of fashion, convenience and technology enables the company to deliver a compelling and unique 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 was founded in 2008. With its registered office in Berlin, Germany, the ZALANDO SE bundles all management functions and generates the vast majority of group revenues. In addition to the parent company, Zalando is comprised of 47 subsidiaries that operate, inter alia, in the areas of fulfillment, customer service, payments, product presentation, advertising, marketing, software development and private labels developed in-house. ZALANDO SE has full control over all subsidiaries, either indirectly or directly. Supplementary information concerning the separate financial statements is presented in section 2.5.

The Management Board of ZALANDO SE consists of five members who are jointly responsible for managing the group. David Schneider (Co-CEO) works closely with brand partners and leads Zalando's fashion offer. Robert Gentz (Co-CEO) is responsible for marketing and sales as well as human resources. Rubin Ritter (Co-CEO) assumes responsibility for strategy, sustainability, diversity & inclusion and communications. He has announced to leave Zalando at the next annual general meeting (AGM) in 2021. David Schröder is Chief Financial Officer (CFO) at Zalando and takes on responsibility for finance, operations and governance.

Jim Freeman completes the Management Board as Chief Technology Officer (CTO), assuming responsibility for Zalando's product and technology strategy and execution.

Consisting of nine members, the Supervisory Board not only appoints but regularly 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 reports about it 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 statement. The corporate governance statement 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 (Zalando app and website). The Offprice segment includes the sales channels Zalando Lounge (Zalando Lounge app and website), brick-and-mortar outlet stores and B2B overstock management. In addition, Zalando's Other segment bundles a variety of emerging businesses, e.g. our partner facing Zalando Marketing Services and our personal style advice service Zalon.

Revenue and profitability generated with external business partners as well as the internal transactions between segments of Zalando are being reported to the Management Board (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

Our Platform Vision and Strategy

It is our ambition to become the Starting Point for Fashion in the markets we serve, and our platform strategy is a key component of achieving this ambition. At the full realization of our vision, the platform provides flawless choice to our customers over a full range of categories, styles and price points, powered by inspirational and personalized recommendations that demonstrate deep understanding of our customers' fashion wants and needs, and completed by a best-in-class convenience proposition. Achieving this full vision aligns our interests and values with our customers and partners in a way where all benefit.

Since our founding, our relationships with partners have been a growth driver for Zalando. We work hand-in-hand with our partners on their digital journey. We aim to create a best-in-class multi-brand environment for partners to engage with customers and provide expertise, insights and services through which they can drive their success. In our view, these strong, mutuallybeneficial partnerships help power a platform flywheel where customer traffic and engagement, partner participation and selection, and platform features and investments reinforce each other and where customers, partners and Zalando benefit.

Despite the many challenges the COVID-19 pandemic created for the overall European Fashion ecosystem in 2020, we continued to execute our strategy in line with our strategic priorities: We grew our active customer base to more than 38 million, further deepened customer relationships to an all-time high order frequency of 4.8 per active customer and increased our Partner Program GMV by 96.4% year over year. We head into 2021 with strong momentum and proof that our strategy is working and is more relevant than ever.

Fashion Industry 2020

The COVID-19 pandemic has had a substantial impact on the fashion industry overall. In this challenging time, which saw the overall European fashion market shrinking year over year, we took decisive action to protect our employees, defend the financial health of our business and respond to opportunities emerging during this crisis.

Consumers

In 2020, e-commerce has become an even more important part of peoples' lives. After an initial negative demand shock in March, we saw a significant acceleration in the long-term demand shift from offline to online, on which we acted starting in April to further accelerate our active customer growth. As consumers adapted to lockdowns, physical distancing and working from home, we saw strong demand for categories like sportswear, kids fashion and beauty. We also observed a strong increase in demand for our growing sustainable fashion assortment and encouraging early customer response to our new Pre-owned fashion experience that launched in September. As demand exceeded pre-COVID-19 levels, we were able to improve our full-price sell-through. We also saw our return rates decrease, which we continue to regard as a rather temporary effect while we see the opportunity to structurally reduce return rates in the long term through technology investments that aid customers in discovering the right product in the right size and fit.

Partners

Fashion brands and retailers across Europe were substantially impacted by the COVID-19 pandemic as offline sales sharply declined in light of lockdowns and physical distancing measures. The resulting profitability and liquidity pressure required brands and retailers to look for paths to compensate for lost offline sales. As customer demand shifted online, brands and retailers accelerated their shift to online as well. Zalando played a leading role assisting partners with this shift, especially those brands and partners with limited existing digital capabilities. We supported brick-and-mortar stores by waiving Connected Retail commission fees and adding resources to our Tradebyte subsidiary to help even more brands integrate with our platform. Partners were able to take advantage of these investments along with our marketing services and fulfillment services, which proved to be resilient and scalable even at the peak of the crisis, to increase visibility with customers and deliver their orders conveniently, efficiently and safely. On average, partners grew their sales on our platform by over 75% year over year and increased their assortment on the Zalando platform by over 50%. Over 25% of our partners took the next step and expanded with us to at least one international market, and we will invest further into capabilities that make this internationalization even easier and compelling for all our partners.

Strategic Investment Areas

Grow Active Customer Base

Brand & Marketing

We believe that we can propel growth by becoming a loved brand with a social DNA. In 2020 we set our ambition to win customers' hearts and minds with content and stories they can identify with. We moved to a social-first strategy and adapted our marketing approach to the new environment, ramping up our brand voice and our storytelling capabilities. With Marketing initiatives such as #TogetherIamstrong, our first 100% remotely produced social-first initiative, or "We will Hug again" we shifted from traditional fashion campaigns to engaging fashion stories. We increased our social media investments on Instagram, Facebook and Tiktok across the entire user funnel. As a result we have increased our engagement rate on Instagram, expressed by likes, shares and comments, by 67% and our TikTok followers by 1,300%. At the same time, we also drove Marketing efficiency up by decreasing cost per reach. We will continue to develop our brand narrative and social-first mindset to grow our active customer base and engage on a deeper level.

Deepen Customer Relationships

Choice

Our vision is to become a one-stop shop for fashion by offering the most comprehensive assortment of any online destination. In 2020, we grew the number of items offered on Zalando by more than 40%, adding further choice across categories and product groups both in Fashion and Beauty. A particular focus was the further expansion of the Premium category, which we renamed Designer to better reflect the large range of high-end products we now offer. We also continued to expand our sustainability assortment and now offer over 80,000 more sustainable items in the Fashion Store. With the further expansion of our offer, we continue to take strides towards becoming the Starting Point for Fashion for an increasing number of customers.

Experience

We strive to create differentiating experiences along the entire fashion journey. In 2020, we redesigned the user experience to offer our customers a more compelling and emotional look and feel that creates a richer overall experience. We also launched Brand Homes, enabling partners to present their stories and collections in a more inspirational way while allowing customers to follow their favorite brands. With the acquisition of Zürich-based mobile body scanning developer Fision, we took a further step to solve size & fit, one of our customers' biggest problems when shopping online. We also launched our Pre-owned experience through which customers can sell clothes in return for store credit and purchase quality-checked and highly curated pre-owned items at a high level of convenience.

Convenience

We aim to make our customers' lives easier by offering a high level of convenience tailored to fashion, from discovery and ordering articles on our online platform to delivery, return and payment. We expanded Zalando Premium Logistics to key metropolitan areas where customers can now benefit from same and next-day delivery. We also started operations in our new fulfillment center in Verona to better serve our customers in Southern Europe.

Offprice

Through our Offprice business, we aim to deliver the best deals to bargain hunters and discount-oriented shoppers. In a year marked by an economic downturn and high uncertainty for many consumers, we were able to cater to the increased demand for bargains and achieved record growth in active customers for our Offprice business. We continued investing in both our online and offline channels, localizing our offer and leveraging automation and data-driven technology solutions. We further scaled our logistics network by ramping up our Offprice fulfillment center in Olsztynek (Poland). We also opened 2 new Zalando outlet stores in Mannheim and Ulm and now have stores across 10 cities in Germany.

Drive Platform Transition

Partner Program

Transitioning to a platform model is essential to becoming the Starting Point for Fashion. A successful platform brings fresh assortment to customers faster than a wholesale model and enables healthy competition among partners for visibility and customer engagement. In our view, it empowers brands and retailers to directly connect with customers and to create a better understanding of their needs, ultimately bringing to the platform the assortment customers want and driving repeat customer visits. Our Partner Program is an essential component of this platform transition, and we invested in technology and services to better serve these partners by onboarding to our platform faster and more effectively reach our customers. We grew our Tradebyte team which helped accelerate the onboarding of new brands on the Zalando platform. We continue investing in our zDirect suite of tools that enable more fine-grained control over assortment for partners that invest in this deep level of direct integration. These investments paid off, as the number of partners on our platform grew over 80% year over year.

Connected Retail

Connected Retail enables brick-and-mortar stores to sell directly to Zalando customers. For our customers, this adds product choice and availability while creating the opportunity to leverage local curation expertise and faster, more sustainable local delivery options in the future. For our partners, Connected Retail enables direct access to Zalando's customer base, creates operational efficiency and provides financial flexibility in challenging market conditions. In 2020, we have grown the Connected Retail order volumes by 11x with 2,400 actively trading stores on the platform. We aim to grow our network to 6,000 stores in 2021 across 13 countries, up from 8 today, in order to bring Connected Retail benefits to even more customers and partners across Europe.

Zalando Fulfillment Solutions (ZFS)

ZFS is an important enabler of our platform transition by simplifying logistics for partners and offering a consistent convenience proposition to customers, regardless of whether a partner or Zalando itself sells the item they purchase. In 2020, ZFS delivered over 45% of all items sold through the Partner Program, and we expect this share to grow as we expand services like Zalando Shipping Solutions (ZSS) and Zalando Return Services (ZRS) that enable cross-border shipping for partners and simplify partners' return logistics flow respectively. We also recently launched service extensions like ZFS for Switzerland, which aims to solve EU-Switzerland customs issues and to enable partners to benefit from Zalando's strong Swiss customer base.

Zalando Marketing Services (ZMS)
Through Zalando Marketing Services, we offer digital technologies and services that help our partners increase their reach, brand impact and better understand their customers. We continue to invest into our ZMS proposition, by expanding our digital touchpoints and improving automation. We are also continuously enhancing our brand-building capabilities, for example by Brand Homes, which was launched in 2020, and by supporting brands to boost visibility of high-performing collections and outfits via dedicated ZMS campaigns.

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) is provided in a separate Sustainability Report which we plan to publish on the Company's website at the same time as the combined management report.

4.1.5 Management System

Zalando's most important key financial performance indicators (KPI) for corporate management are GMV, revenue, EBIT (margin), adjusted EBIT (margin) and capex as well as net working capital. 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 its business.

— **Site visits[1]:** 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 29.1% in 2020.
— **Mobile visit share[2]:** 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 2.6 percentage points in 2020, rising from 83.7% in 2019 to 86.3%.
— **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 7.8m, rising from slightly below 31.0m to above 38.7m in 2020.
— **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 2020, the number of orders placed increased from 144.9m in 2019 to 185.5m.

1) Due to a change in consent management following the GDPR introduction, some of the data is estimated using a statistical method.
2) As footnote above

- **Average orders per active customer:** The average number of orders placed by active customers during the last twelve months totaled 4.8 as of December 31, 2020 (prior year: 4.7). This KPI is an important indicator of the trust customers place in the company and is primarily influenced by customer specifics and category mix.
- **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) increased slightly in fiscal year 2020 from EUR 56.6 to EUR 57.7. It is influenced by category mix, customer mix, 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 2020, the group recognized development costs of EUR 65.6m (prior year: EUR 68.5m), of which EUR 30.8m relates to assets under development (prior year: EUR 41.6m). 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

4.2.1 Macroeconomic and Sector-Specific Environment

www.euromonitor.com

The steady growth of the European fashion sector in recent years was disrupted in 2020 due to area-wide closures of stationary retail as a protective measure against the COVID-19 pandemic. In fact, the total volume of fashion sales decreased by 19.8%[3] to around EUR 350bn[4].

E-commerce, on the other hand, experienced unprecedented growth in 2020, resulting in a strong sales momentum in European online fashion retail. According to Euromonitor data, the European online fashion market grew to a total trading volume of EUR 85bn[5] in 2020, representing an increase of 12.4%.

Similarly, the German fashion market, the largest in Europe, was faced with a decrease of 21.1%, with a trading volume of EUR 61bn[6]. Online fashion sales, on the other hand, saw an increase to a trading volume of around EUR 20bn[7], with a year-over-year increase of 5.5%, significantly lower however than for Europe overall.

4.2.2 Business Development

Zalando closed a successful business year, achieved strong growth and improved profitability in 2020. The group reported 23.1% revenue growth to a total of EUR 7,982.0m (prior year: EUR 6,482.5m). The EBIT of EUR 367.0m reported by the group (prior year: EUR 165.8m) corresponds to an EBIT margin of 4.6% (prior year: 2.6%).

In August, Zalando raised additional capital by placing two tranches of unsubordinated, unsecured convertible bonds with an aggregate principal amount of EUR 500m each. The transaction resulted in gross proceeds of EUR 1,004.4m. The proceeds will be used to further accelerate the execution of our strategy, specifically the transition into a platform business model, and to put more capital behind our investment opportunities and growth conviction independently from external market conditions.

Apparel remained Zalando's biggest product category, followed by shoes, sports and beauty products. The customer base continued to grow strongly, reaching 38.7m active customers at the end of 2020 (prior year: 31.0m). 5,393.6m visits[8] to the Zalando Fashion Store were counted in 2020 (4,178.1m in 2019), of which 86.3% were conducted from a mobile device (prior year: 83.7%). As in prior years, Zalando continued to invest significantly in its customer proposition, including assortment, convenience, fashion services and experiences. Among others, Zalando closed the gap between new and pre-owned clothes by launching its new Pre-owned category and took a step forward toward solving fashion industry's key challenge of size and fit by acquiring Zürich-based mobile body scanning developer Fision. Zalando's overall efforts resulted in a steady increase in the number of orders (185.5m in 2020 vs. 144.9m in 2019) and in the average number of orders per customer per year (4.8 in 2020 vs. 4.7 in

3) Euromonitor, Europe excl. Russia
4) Euromonitor, Europe excl. Russia
5) Euromonitor, Europe excl. Russia
6) Euromonitor, Germany
7) Euromonitor, Germany
8) Due to a change in consent management following the GDPR introduction, some of the data is estimated using a statistical method.

2019), emphasizing Zalando's strategic focus on building long-term relationships with its customers.

Zalando continues to successfully drive the platform transition, also fueled by an accelerated offline to online shift. This is reflected in the strong performance of the Partner Program driven by brands intensifying their usage as well as by a steep increase of new partners and retailers (579 in 2020 vs. 320 in 2019) leading to a substantial increase of choice and availability for Zalando customers. In the fourth quarter 2020, the number of stock keeping units (SKU) offered via Zalando's Partner Program for the first time surpassed the ones offered via the wholesale business. In line with the growing share of the Partner Program, Zalando's offline to online integration solution, Connected Retail, also saw over 2,400 stores connected by year end. While these developments are testament to the increasing relevance and success of our overall platform strategy, they also showcase our efforts to become part of the solution for the European fashion ecosystem overall and to provide welcome relief to our partners through incremental sales opportunities and special commercial incentives in a very challenging environment.

The outlet business also continued to grow significantly in 2020, as indicated by a revenue increase of 48.3% in the Offprice segment. Despite the COVID-19 pandemic, Zalando opened two new outlet stores in Mannheim and Ulm during the year, bringing the total number of brick-and-mortar stores to ten. Four more outlets are planned by the end of 2022: Constance, Munich, Nuremberg and Dusseldorf.

In 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. In alignment with that strategy, Zalando continuously broadened its sustainability assortment and became the first fashion platform worldwide to set Science-Based Targets to reduce carbon emissions in line with the Paris Agreement by 2025. We also launched a sustainability brand assessment approach on the basis of the Sustainable Apparel Coalition's Higg Brand and Retail Module.

In the prior year, Zalando also set the target of achieving a balanced representation of both women and men, indicated by a share of 40-60% for both genders on the top six leadership levels by the end of 2023. The 2020 Diversity & Inclusion report shows that the company has already achieved this goal in its Supervisory Board, which now comprises 56% women. It further shows significant progress on Senior Vice President (SVP) (30%) and Vice President (VP) (22%) level. The company has reaffirmed its commitment of reaching the diversity target in the Management Board by 2023.

4.2.3 Economic Situation

Financial Performance of the Group

The overall business performance in 2020 was exceptionally strong. GMV and revenue grew by 30.4% and 23.1%, respectively. The strong growth was in particular driven by the accelerated shift of consumer demand toward digital offerings in the course of the ongoing coronavirus pandemic, the company's focused execution of the platform strategy and the decisive crisis response. In addition to outstanding top line growth, Zalando achieved EBIT of

Further Information
Consolidated Statement of Comprehensive Income

EUR 367.0m, improving its EBIT margin by 2.0 percentage points. The EBIT improvement was in particular driven by an improvement in the overhead cost ratio as a result of increasing scale effects and company wide saving efforts and a significant decrease in return rates year-on-year, which the company considers to be a result of changes in customer behavior induced by the pandemic and ensuing lockdown restrictions and therefore regards as temporary in nature. With net income of EUR 226.1m, Zalando continues to be clearly profitable overall.

Condensed Consolidated Income Statement

IN EUR M	Jan 1 – Dec 31, 2020	As % of revenue	Jan 1 – Dec 31, 2019	As % of revenue	Change
Revenue	7,982.0	100.0%	6,482.5	100.0%	0.0pp
Cost of sales	–4,587.8	–57.5%	–3,724.3	–57.5%	0.0pp
Gross profit	**3,394.2**	**42.5%**	**2,758.2**	**42.5%**	**0.0pp**
Fulfillment costs	–2,055.1	–25.7%	–1,773.0	–27.3%	1.6pp
Marketing costs	–660.9	–8.3%	–522.2	–8.1%	–0.2pp
Administrative expenses	–319.2	–4.0%	–298.9	–4.6%	0.6pp
Other operating income	26.7	0.3%	18.2	0.3%	0.1pp
Other operating expenses	–18.7	–0.2%	–16.6	–0.3%	0.0pp
Earnings before interest and taxes (EBIT)	**367.0**	**4.6%**	**165.8**	**2.6%**	**2.0pp**

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

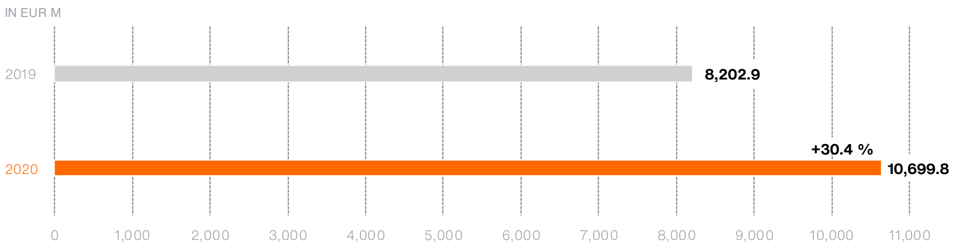
Key Performance Indicators*

	Jan 1 – Dec 31, 2020	Jan 1 – Dec 31, 2019	Change
Site visits** (in millions)	5,393.6	4,178.1	29.1%
Mobile visit share** (as % of site visits)	86.3	83.7	2.6pp
Active customers (in millions)	38.7	31.0	25.0%
Number of orders (in millions)	185.5	144.9	28.0%
Average orders per active customer	4.8	4.7	2.4%
Average basket size (in EUR)	57.7	56.6	1.9%
Gross merchandise volume (GMV) (in EUR m)	10,699.8	8,202.9	30.4%
Revenue (in EUR m)	7,982.0	6,482.5	23.1%
EBIT (in EUR m)	367.0	165.8	121.5%
EBIT margin (as % of revenue)	4.6	2.6	2.0pp
Adjusted EBIT (in EUR m)	420.8	224.9	87.1%
Adjusted EBIT margin (as % of revenue)	5.3	3.5	1.8pp
EBITDA (in EUR m)	581.5	360.6	61.3%
EBITDA margin (as % of revenue)	7.3	5.6	1.7pp
Adjusted EBITDA (in EUR m)	635.3	419.7	51.4%
Adjusted EBITDA margin (as % of revenue)	8.0	6.5	1.5pp
Net working capital (in EUR m)	–87.4	–147.7	40.8%
Operating cash flow (in EUR m)	527.4	327.2	61.2%
Capex (in EUR m)	–250.0	–306.5	18.4%
Free cash flow (in EUR m)	284.5	41.6	583.9%

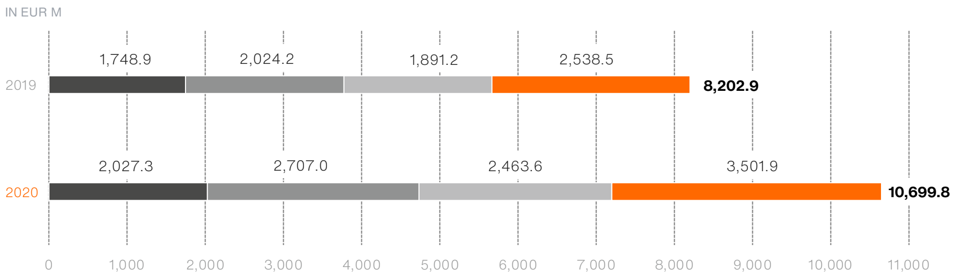
*) For an explanation of the key performance indicators, please refer to the glossary.
**) Due to a change in consent management following the GDPR introduction, some of the data is estimated using a statistical method.

Development of Revenue and GMV[9]

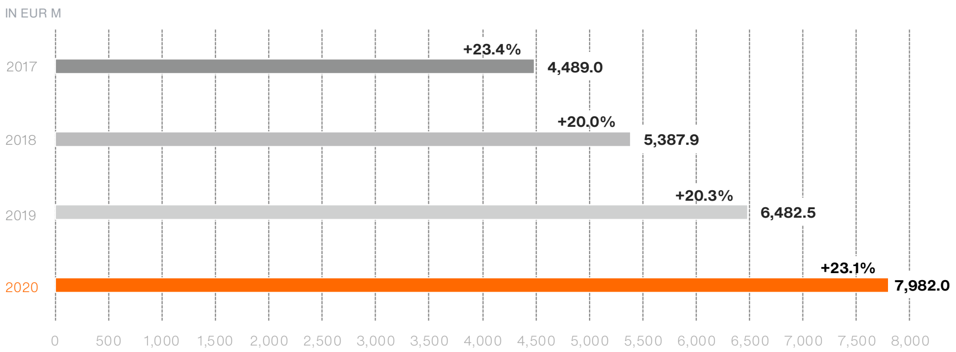
Annual GMV Growth (2019 – 2020)



GMV by Quarter (2019 – 2020)

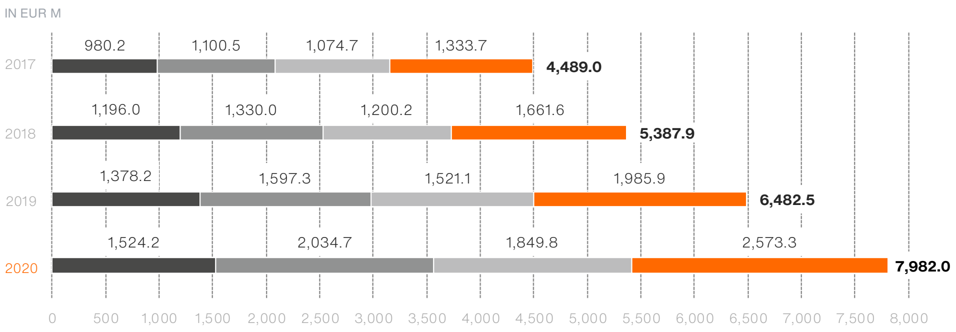


Revenue by Year (2017 – 2020)



9) The statements on the quarterly development of GMV and revenue are unaudited.

Revenue by Quarter (2017 – 2020)



In 2020, GMV increased by EUR 2,496.9m to EUR 10,699.8m. This corresponds to year-on-year GMV growth of 30.4%. After a sharp decline in customer demand during the first quarter of the year following the onset of the coronavirus pandemic in Europe, Zalando saw much faster than expected recovery and exceptionally strong growth in all other quarters of the year, with the company reporting the strongest GMV growth for the fourth quarter since Zalando went public in 2014.

The strong GMV growth was in particular driven by the company's focused execution of the platform strategy and outstanding growth in new customers as the shift in consumer demand toward digital offerings accelerated in the course of the ongoing coronavirus pandemic.

The strong Partner Program performance in 2020 clearly reflects our platform transition efforts. Throughout the year, the Partner Program continued its growth trajectory. Zalando saw its Partner Program grow strongly as brands and retailers increased their online activities and connected more stock to the Zalando platform, in order to reach their customers across Europe. More than 250 new partners joined the Partner Program in 2020. 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. Overall, the Partner Program GMV increased by more than 100% year on year to EUR 1,998.2m in fiscal year 2020.

Along with that, Zalando saw exceptionally strong new customer growth with many first-time fashion online shoppers. In Q4 2020, Zalando realized an all-time high in new customer acquisitions. As of December 31, 2020, the group had 38.7 million active customers compared to 31.0 million active customers as of December 31, 2019, corresponding to an increase of 25.0%. In line with that development, a generally higher level of customer engagement as evidenced by a 29.1% increase in site visits was recorded. The larger customer base ordered more frequently than in the corresponding prior-year period. The number of orders increased by 28.0% with the average number of orders per active customer rising by 2.4%, triggered by our continuous ambitions to improve our customer experience. The rising number of active customers is accompanied by changes in customer shopping behavior. The favorable development of the return rate in 2020 was the result of the change in customer mix with a high share of new customers and a changing category mix with a higher share of need-based categories. We continue to regard this development as temporary in nature.

Revenue increased by 23.1% or EUR 1,499.5m from EUR 6,482.5m to EUR 7,982.0m in 2020. The drivers of revenue are the same as for GMV. Because of the strong growth of the Partner Program, the growth in GMV was, however, higher than the growth in revenue. While the Partner program is fully reflected in the GMV metric, revenue only includes the commission income and service fees from partners, further reduced by additional commercial incentives provided to partners in the context of our ongoing partner relief efforts.

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 particularly pronounced towards the end of season.

Development of EBIT

The group recorded EBIT of EUR 367.0m in 2020 (prior year: EUR 165.8m), which corresponds to an EBIT margin of 4.6% (prior year: 2.6%) and represents an increase of 2.0 percentage points. The increase in the EBIT margin is predominantly driven by an improvement in the fulfillment cost ratio of 1.6 percentage points.

Cost of sales rose by 23.2% year-on-year from EUR 3,724.3m to EUR 4,587.8m, resulting in a stable gross margin of 42.5% (prior year: 42.5%). While the gross margin was adversely affected by the exceptional inventory write-down in Q1 2020 (EUR 40.2m) as well as changes in country and product mix and a larger share of sales via Offprice in Q2 2020, it fully recovered during Q3 and Q4 2020. The strong sales performance of SS2020 and FW2020 items led to lower overstocks and hence a positive impact from lower allowances of goods (including the reversal of the exceptional write-down from Q1 2020) and lower discount levels, which offset the negative effects from the two preceding quarters.

The fulfillment cost ratio as a percentage of revenue improved by 1.6 percentage points from 27.3% in 2019 to 25.7% in 2020. The negative impact of higher warehousing costs due to lower utilization on the margin in Q1 2020, was more than offset by the positive development during the last three quarters of the year. Lower logistic costs, mainly driven by the favorable return rate development and further supported by higher utilization rates favored the margin development in these quarters. At the same time Zalando continued to build its European logistics network and to invest in it’s customer and brand proposition.

Overall, the marketing cost ratio rose by 0.2 percentage points from 8.1% in 2019 to 8.3% in 2020. During Q1 2020 Zalando continued to leverage its well established and long-term-oriented ROI- based marketing approach, which led to elevated spend levels and a corresponding effect on margins. In the following two quarters the marketing cost ratio was positively impacted by strong organic demand and reduced relative investment levels in brand and performance marketing as part of the company wide saving measures introduced in response to the coronavirus crisis in Q2. In Q4 2020, Zalando took full advantage of the customer demand opportunity, increasing investments in personalized marketing based on favourable ROI developments to further fuel platform sales and elevating the visibility of its brand marketing campaigns with a focus on important brand moments (e.g. holiday season start and Christmas) such as “We will hug again” to build brand awareness and attract additional customer demand.

Administrative expenses increased from EUR 298.9m in 2019 to EUR 319.2m in 2020, implying a decrease of 0.6 percentage points in proportion to revenue. The improvement in administration cost ratio was driven by a continued focus on overhead cost efficiency as part of our company-wide saving efforts and the strong topline growth.

With net income of EUR 226.1m, Zalando continues to be 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 420.8m in 2020 (prior year: EUR 224.9m), which translates to an adjusted EBIT margin of 5.3% in 2020 (prior year: 3.5%).

In 2020, EBIT comprises expenses from equity-settled share-based payments of EUR 53.8m (prior year: EUR 46.0m). No further costs were adjusted for in the calculation of adjusted EBIT this year.

In 2019, 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 were adjusted for in the calculation of adjusted EBIT.

Results by Segment

The condensed segment results for 2020 highlight in particular the strong growth in the Fashion Store segment and the outstanding performance of the Offprice segment. The development of revenue and earnings reported by the segments of the Zalando group can be summarized as follows:

Segment Results of the Group 2020

IN EUR M	Fashion Store	Offprice	All other segments	Total	Reconciliation	Total Group
Revenue	7,257.7	978.1	196.0	8,431.8	–449.8	7,982.0
thereof intersegment revenue	403.9	1.3	44.7	449.8	–449.8	0.0
Earnings before interest and taxes (EBIT)	296.9	82.3	–12.4	366.8	0.2	367.0
Adjusted EBIT	341.7	88.0	–9.1	420.6	0.2	420.8

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

Financial information for the Fashion Store segment, including intersegment transactions, breaks down into the regions DACH and Rest of Europe as follows:

Fashion Store Results by Region 2020

IN EUR M	DACH	Rest of Europe	Fashion Store
Revenue	3,319.0	3,938.7	7,257.7
thereof intersegment revenue	219.8	184.1	403.9
Earnings before interest and taxes (EBIT)	267.3	29.6	296.9

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

In 2020, revenue grew by 21.7% in the Fashion Store segment. This development reflects a combination of both the steep decline in customer demand during the first quarter of the year at the start of the coronavirus pandemic and exceptionally strong growth in the following three quarters of the year. The strong growth was achieved through the outstanding new customer acquisition following the general shift in consumer demand toward digital offerings and the accelerated execution of the platform transition leading to a strongly growing Partner Program that offers customers an attractive assortment. Profitability was strong in the Fashion Store segment, which realized an EBIT margin of 4.1% in 2020, an increase of 1.0 percentage points compared to the prior year. This improvement mainly resulted from a lower fulfillment cost ratio, which recovered fully from the effects of underutilization in Q1 2020 through return rate improvements and higher utilization throughout the rest of the year. The 1.5 percentage point improvement in the fulfillment cost ratio was partly offset by a slight reduction in gross profit margin (down 0.2. percentage points) and a higher marketing cost ratio (up 0.6 percentage point). The gross profit margin was impacted by the exceptional inventory write-offs as well as the country and product mix effects from Q1 and Q2 2020.These could not be fully offset by the positive development in Q3 and Q4 2020, which was driven by high seasonal sales that resulted in lower overstock and allowances on inventories (including the reversal of the exceptional inventory write-offs from Q1). Conscious investments in long-term personalized marketing measures and sales campaigns to attract customers and drive customer development, especially in Q1 and Q4 2020 led to a higher marketing cost ratio than in the prior year.

In 2020, the Offprice segment revenue increased by 48.3% compared to the corresponding prior-year period and the EBITmargin significantly improved by 4.9 percentage points from 3.5% in 2019 to 8.4% in 2020. The strong growth performance of the Offprice segment in 2020 is mostly attributable to the outstanding development of Zalando Lounge. The reduced sales volume of our Zalando Outlets as a result of temporary lockdown restrictions for non essential brick-and-mortar retail only had a smaller impact on overall performance. The EBIT margin improvement was mainly fueled by an improved fulfillment cost ratio (down by 2.4 percentage points to 25.2%) achieved through overall efficiency gains in 2020 and an improved marketing cost ratio (down by 1.3 percentage points to 2.3%) which was carried by the strong organic demand growth.

In all other segments revenue declined by 22.3% in 2020 compared to the prior-year period, the main reason being the reorganization of the private label business in Q1 2019. The private label business was integrated into the Fashion Store segment in Q2 2019. Hence, private label business revenue shifted from all other segments to the Fashion Store segment. As private label business revenue solely comprises intersegment transactions with the Fashion Store segment, the shift did not impact Fashion Store revenue. Besides this shift, growth in all other segments has been mostly driven by Zalando Marketing Services which saw demand returning after an initial hit following the brands decision to cut back on marketing investments at the beginning of the coronavirus pandemic. These positive developments were partially offset by our style advice service Zalon which suffered from lower customer interest in occasion based shopping. The EBIT margin in all other segments improved by 9.3 percentage points to -6.3% in 2020 in comparison to the prior-year period, mainly driven by the fact that no restructuring costs were incurred in 2020.

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, 2020	Jan 1 – Dec 31, 2019	Change
Expenses for equity-settled share-based payment	**53.8**	**46.0**	**7.8**
Fashion Store	44.8	38.4	6.4
Off-price	5.7	4.5	1.2
All other segments	3.3	3.1	0.3

In 2019, EBIT included the above-mentioned restructuring costs of EUR 13.1m incurred in all other segments in connection with the reorganization of the private label business in Q1 2019. In 2020, EBIT contained no restructuring costs.

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, 2020	Jan 1 – Dec 31, 2019
Cash flow from operating activities	**527.4**	**327.2**
Cash flow from investing activities	**–217.8**	**–290.3**
Cash flow from financing activities	**1,354.1**	**–57.3**
Change in cash and cash equivalents	1,663.6	–20.4
Exchange-rate related and other changes in cash and cash equivalents	3.9	1.9
Cash and cash equivalents at the beginning of the period	976.5	995.0
Cash and cash equivalents as of December 31	**2,644.0**	**976.5**

In fiscal year 2020, Zalando generated a positive cash flow from operating activities of EUR 527.4m (prior year: EUR 327.2m). The increase compared to the prior-year period of EUR 200.2m was driven by the strong positive net income before depreciation and non-cash expenses and other assets and liabilities, partly offset by the development in net working capital.

The capital employed in net working capital increased compared to the prior year and thus negatively impacted the cash flow. Net working capital, consisting of inventories and trade and other receivables less trade payables and similar liabilities, increased from EUR -147.7m in the prior year to EUR -87.4m as of December 31, 2020 (also see section 2.2.3, Financial Position for details on net working capital development). The development in other assets and liabilities was dominated by increased VAT liabilities due to the higher business volume, which positively impacted the cash flow and offset the negative effect stemming from net working capital.

Cash outflow from investing activities is mainly impacted by capex, being the sum of the payments for investments in property, plant and equipment and intangible assets, amounting to EUR 250.0m (prior year: EUR 306.5m). Capex primarily included investments in the logistics infrastructure at the fulfillment centers in Verona (Nogarole Rocca), Italy; Olsztynek, Poland; Rotterdam (Bleiswijk), Netherlands and spendings on internally developed software. In October 2020, Zalando acquired 100% of the Swiss software company Fision AG leading to a net cash outflow of EUR 31.5m. Furthermore, cash flow from investing activities contained payments received for the sale of undeveloped land on the Zalando Campus of EUR 30.3m, and from the sale of a subsidiary of EUR 6.0m and warehouse equipment (Brieselang, Germany) of EUR 2.4m.

As a result, free cash flow increased by EUR 242.9m from EUR 41.6m to EUR 284.5m compared to the prior year.

In Q1 2020, Zalando made use of its revolving credit facility which resulted in cash inflows from financing activities of EUR 375.0m. Furthermore in Q3 2020, Zalando placed two tranches of unsubordinated, unsecured convertible bonds with an aggregate principal amount of EUR 1,000.0m, which resulted in cash inflows from financing activities of EUR 994.0m. During 2020, Zalando received EUR 55.1m from strike price payments (prior year: EUR 38.5m) relating to exercises of employee stock options and had cash outflows for the repayment of the principal portion of lease liabilities of EUR 67.2m (prior year: EUR 54.2m).

As a result, cash and cash equivalents increased by EUR 1,667.5m during the year, resulting in Zalando carrying cash and cash equivalents of EUR 2,644.0m as of December 31, 2020.

Credit Facility

On December 15, 2016, ZALANDO SE entered into a revolving credit facility for an amount of EUR 500.0m 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, 2020, an amount of EUR 375.0m was drawn under the revolving credit facility. An amount of EUR 79.6m was 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, 2020		Dec 31, 2019		Change	
Non-current assets	1,560.0	24.0%	1,455.1	33.6%	105.0	7.2%
Current assets	4,934.8	76.0%	2,878.0	66.4%	2,056.8	71.5%
Total assets	**6,494.8**	**100.0%**	**4,333.1**	**100.0%**	**2,161.7**	**49.9%**

Equity and Liabilities

IN EUR M	Dec 31, 2020		Dec 31, 2019		Change	
Equity	2,151.1	33.1%	1,683.8	38.9%	467.4	27.8%
Non-current liabilities	1,404.2	21.6%	542.6	12.5%	861.6	158.8%
Current liabilities	2,939.5	45.3%	2,106.7	48.6%	832.8	39.5%
Total equity and liabilities	**6,494.8**	**100.0%**	**4,333.1**	**100.0%**	**2,161.7**	**49.9%**

Compared to December 31, 2019, Zalando's total assets increased by EUR 2,161.7m (up 49.9%).

Right-of-use assets (non-current) had a carrying amount of EUR 479.8m as of December 31, 2020. These mainly related to lease contracts for fulfillment centers, office buildings and outlets (see also Section 3.5.7. (13.)).

In 2020, investments in intangible assets amounted to EUR 110.7m (prior year: EUR 69.7m), while investments in property, plant and equipment totaled EUR 179.5m (prior year: EUR 247.7m).

Key components of the software used by the group are developed internally. This ensures that the software is aligned with the operating processes and systems in the best possible way. For example, order and fulfillment processes are supported using internally developed software. In fiscal year 2020, additions related to capitalized development costs as well as to prepayments and assets under development amounted to EUR 98.4m (prior year: EUR 68.5m), of which EUR 63.6m is contained in prepayments and assets under development (prior year: EUR 41.6m).

Inventories in 2020 mainly represent goods required for Zalando's wholesale business. The EUR 262.9m increase in inventories to EUR 1,361.2m 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, 2020 are all current. The increase of EUR 140.1m to EUR 602.5m is primarily attributable to the higher sales volume throughout the whole year.

Equity rose from EUR 1,683.8m to EUR 2,151.1m in the fiscal year. The EUR 467.4m increase primarily stems from the positive net income in the period, from convertible bonds and from share-based compensation. In the reporting period, the equity ratio fell from 38.9% at the beginning of the year to 33.1% as of December 31, 2020. The decline was mainly driven by the placement of two tranches of convertible bonds with a principal amount of EUR 1,000.0m in Q3 2020.

Lease liabilities have a carrying amount of EUR 516.7m as of December 31, 2020; of that amount EUR 443.0m is non-current and EUR 73.7m is current. They represent the discounted financial obligations resulting from lease contracts in accordance with IFRS 16.

Current liabilities increased by EUR 832.8m in the reporting period. This is mainly attributable to an increase in trade payables and similar liabilities and borrowings. Trade payables and similar liabilities rose by EUR 342.2m from EUR 1,708.3m in 2019 to EUR 2,050.5m 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 449.8m were transferred to various factors as of December 31, 2020 (December 31, 2019: EUR 394.5m). These items were recognized in the statement of financial position under trade payables and similar liabilities.

Current borrowings increased by EUR 374.9m to EUR 377.7m as of December 31, 2020. When Zalando made use of its revolving credit facility in Q1 2020, the amount of EUR 375.0m was recognized under non-current borrowings. At the end of the 2020 reporting period, there was a shift from non-current to current borrowings with the aim to pay off the credit line at the beginning of 2021.

Net working capital, consisting of inventories and trade and other receivables less trade payables and similar liabilities, increased from EUR -147.7m in the prior year to EUR -87.4m as of December 31, 2020. The higher net working capital is driven by an increase in inventories and trade and other receivables stemming from overall higher business volume in fiscal year 2020, partly offset by increasing trade payables and similar liabilities.

Overall Assessment

The Management Board views the business development in 2020 as very successful. The Zalando group increased GMV and revenue strongly and gained additional market share. The strong growth was in particular supported by the accelerated shift in consumer demand toward digital offerings over the course of the ongoing coronavirus pandemic, the company's focused execution of the platform strategy and the decisive crisis response. Zalando focused on growth opportunities, made key strategic investments and remained profitable in the process. EBIT increased compared to prior year as a result of temporary return rate benefits and increasing operating leverage while we continued to push forward our investments in customer acquisition and proposition improvements.

The company targets were partly exceeded in 2020. The 2019 group management report anticipated GMV growth of 20% to 25%, revenue growth of 15% to 20% and an adjusted EBIT of between EUR 225.0m and EUR 275.0m in 2020 (EBIT EUR 175.0m to EUR 225.0m). Zalando revised this guidance down following the onset of the coronavirus pandemic in Europe in the Quarterly Statement for Q1 2020 published on May 5, 2020. After exceptionally strong and profitable growth in the second and third quarter, Zalando raised its full-year guidance presented in the Quarterly Statement for the second quarter of 2020 published on August 11, 2020 again. The latest modified guidance for GMV growth of 25-27%, and revenue growth of 20-22% was more than met with actual GMV and revenue growing by of 30.4% and 23.1%, respectively. The adjusted EBIT of EUR 420.8m and EBIT of EUR 367.0m for fiscal year 2020 are at the upper end of the anticipated range of adjusted EBIT between EUR 375.0m and EUR 425.0m and EBIT of between EUR 325.0m and EUR 375.0m

The 2019 group management report anticipated capital expenditures of around EUR 330m. This capex guidance was revised in the Quarterly Statement for Q1 2020 published on May 5, 2020. The company anticipated capital expenditures of EUR 230.0m to EUR 280.0m for the current year with continued investments in the European logistics network and technology infrastructure as part of the platform strategy. Within expectations, the capital expenditures amounted to EUR 250.0m at year end.

Overall, in 2020 the group achieved very strong growth and continued to be clearly profitable.

4.2.4 Employees

At the end of 2020, Zalando had 14,194 employees (prior year: 13,763), representing an increase of 3.1% compared to the prior year. The average headcount fell by 369 from 14,237 to 13,868. The decrease was mainly driven by the change in the logistics operating model by outsourcing to third parties, as seen in Brieselang in 2019, as well as the ramp-up of the warehouse in Gardno (Poland) and therefore lower volumes in German warehouses. On the other hand, the headcount, predominantly in Berlin, was raised due to further investment into platform initiative and technical areas.

4.3 Risk and Opportunity Report

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

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.

4.3.1 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

Risk and Opportunity Objectives

The objective of the RMS is to create the necessary transparency about risks and opportunities for decision makers, to 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

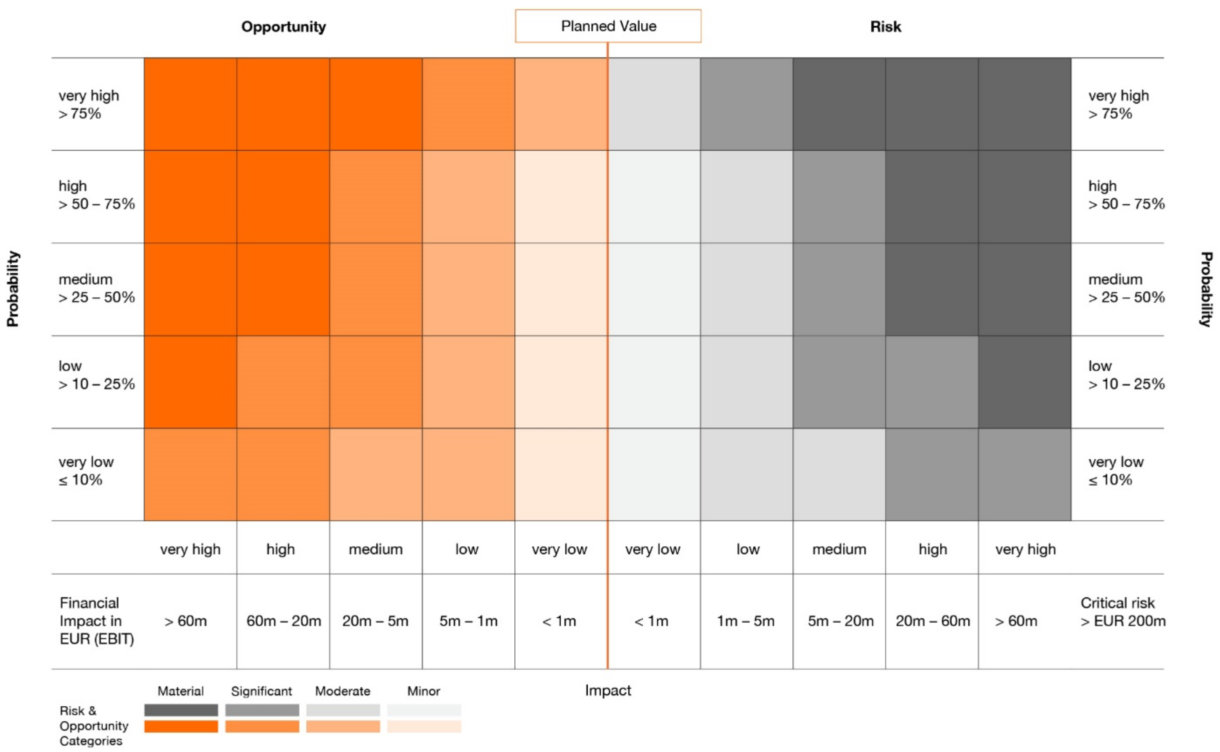
Using multiple instruments, such as workshops and self-assessments, the identification and assessment of risks and opportunities is carried out by both, the risk and opportunity owners during day-to-day operations and the Risk Management Team on a half-yearly basis. Moreover, Zalando has implemented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

The systematic identification and utilization of opportunities are important elements in ensuring continued strong and 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 identified single risks and opportunities are finally aggregated into 19 company-specific clusters using Monte-Carlo-Simulation. The outcome of the aggregation of each cluster 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 reputation. Zalando separately tracks risks that exceed EUR 200m as business critical, since they might threaten Zalando as a going concern.

In the assessment of single risks, 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 clusters presented in this report only show the net risk.

Based on the assessment and the respective combination of probability and impact, risks and opportunities are classified as minor, moderate, significant, or material. The material risks and opportunities are described in detail throughout this report.

Risk and Opportunity Control

Risk and opportunity owners are charged with developing and implementing effective risk mitigating and opportunity supporting measures within their responsibility area. 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. The Internal audit team 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, compliance 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 and type of the control, frequency with which the control is carried out, the mitigated risk, and the person responsible. The control mechanisms implemented affect multiple processes and thus frequently overlap. These mechanisms, among other things, include determining principles and procedures, defining processes and controls, introducing approval and testing plans and guidelines. The 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.

4.3.2 Illustration of Risks

Overall, we identified no risks or risk clusters that might threaten ZALANDO SE as a going concern. The following table provides an overview of Zalando´s risk clusters and a comparison with 2019. 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 Risk Clusters

ID – Risk Cluster	Assessment	2020 Impact	2020 Probability	2019 Impact	2019 Probability
Markets, Competition and Strategy					
1. Competitive Environment	Material	↓ High	Medium	Very High	Medium
2. Investments	Significant	Medium	Low	Medium	Low
Reputation and Sustainability					
3. Brand and Image	Significant	Medium	↑ Medium	Medium	Low
4. Environmental and Social Responsibility	Moderate	Low	Low	Low	Low
Operational					
5. Logistics	Material	Very High	↑ Medium	Very High	Low
6. People	Significant	Medium	High	Medium	High
7. Buying & Sales	Material	Very High	Medium	Very High	Medium
8. Indirect Procurement	Significant	Medium	High	Medium	High
9. IT Security	Material	High	Medium	High	Medium
10. IT Systems and Infrastructure	Significant (change)	↓ Medium	↓ Medium	High	High
11. User Experience	Material	High	Medium	High	Medium
Compliance					
12. Regulatory Changes	Significant (change)	↓ Medium	High	High	High
13. Data Protection	Material	High	Medium	High	Medium
14. Fraud and Bribery	Significant	Medium	Medium	Medium	Medium
15. Product Compliance	Significant (change)	↓ Low	↓ Low	Medium	Medium
16. Competition Law	Significant	Medium	Low	Medium	Low
17. Other legal aspects	Significant	Medium	↓ Low	Medium	High
Financial					
18. Liquidity, Counterparty, Currency & Interest	Significant	High	↓ Very Low	High	Low
19. Other Financial Risks	Significant	Medium	Medium	Medium	Medium

Compared to the 2019 risk and opportunity report, the risk of “Changing Regulatory Requirements” is no longer regarded as a material risk for Zalando, as in particular the impact of the Brexit was reduced by further mitigation measures. Based on the results of the aggregation carried out for the first time in 2020, the “IT Systems and Infrastructure” cluster was also reduced from material to significant compared to 2019, which was mainly accomplished by the improvement of our cloud infrastructure.

In the following, Zalando's material risk clusters are presented in descending order depending on their respective positions in the risk matrix. To ensure comparability with the 2019 Risk and

Opportunity report, the material single risks of 2019, which have now been aggregated within the clusters, are named in the respective cluster.

Logistics

(includes 2019 top risk – Supply Chain Disruption Due To Events In Supplier – remains top risk in 2020)

The COVID-19 pandemic affects Zalando's entire supply chain and logistics, increasing uncertainty, starting with international supply routes, through warehousing and fulfillment, and ending with delivery to and return from the end customer. Interruptions or delays in inbound and outbound deliveries due to shutdowns of key infrastructure, border closures, and capacity constraints, as well as staff shortages due to potentially high rates of infection and quarantine in warehouses, can lead to increased costs, loss of revenue, service degradation, and reduced customer satisfaction.

Unlike other industries, Zalando's supply chain is not designed for just-in-time processes. Instead, our seasonal planning approach is characterized 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 upstream value and supply chains can thus be compensated to some extent. In addition, we have refined our monitoring and enhanced our flexibility within the supply chain, which increases our resilience.

In order to maintain our warehousing and fulfillment capabilities at a high level, we have introduced a variety of additional preventive health and safety measures to protect our employees, proactively increased and balanced our inbound and outbound capacities across our European logistics network, and developed detailed business continuity plans for the event of temporary warehouse shut-downs.

The delivery to the end customer benefits from our long-term capacity planning, which is supported by strategic long-term business relationships with key last mile carriers. In addition, we have been able to add additional carriers in various markets, which enable us to better compensate for single carrier service disruptions.

Compared to 2019, the overall risk situation in the Logistics cluster has increased by one probability class from low to medium due to the stated uncertainties resulting from the COVID-19 effects.

Buying & Sales

(includes 2019 top risk – Impact Act Of Climate Change On The Business – remains top risk in 2020)

Zalando’s sales are influenced directly by the COVID-19 effects. Increased consumer demand resulting from an accelerating offline to online shift creates additional sales potential, while at the same time it presents the supply side with the challenge of adequately meeting demand. Supply continues to be affected by the uncertainties of possible lockdowns in the production countries, by the risk of global fashion supply chain disruptions and by the financial situation of our brands and partners, some of which are severely affected by the restrictions in the stationary retail sector, so that possible shortages in terms of assortment depth and assortment breadth may occur in 2021.

To reduce this risk, we constantly monitor conditions in the production countries and maintain a very close exchange with our brands and partners. In addition, we are willing and able to increase our wholesale buying pre-commitments to ensure planning security for both sides and actively offer our brands and partners our support in various areas. Furthermore, we continue to increasingly leverage our Partner Program and Connected Retail Program to connect additional brand and retailer inventory to our platform to offer our customers an even higher availability and larger variety of attractive fashion and lifestyle products.

In addition to the COVID-19 effects on supply, the influence of climate change continues to be a material risk for Zalando. Our 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 short-term business performance. It can be assumed that due to climate change, extreme weather conditions are more likely to occur and thus influence our company goals.

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

Competitive Environment

(includes 2019 top risk – Increased Costs Or Limitation To Growth Due To Competition – remains top risk in 2020)

The competitive environment has changed considerably as a result of the COVID-19 pandemic. On the one hand, consumer demand is shifting more rapidly to digital services. On the other hand, this shift is leading large international e-commerce players, local challengers as well as global tech and fashion companies to improve their e-commerce offerings at an ever-faster pace and to expand into additional markets. As a result, future business growth might be at risk or at least become more expensive as the online fashion market will be more contested.

Facing this competitive environment, we are convinced our Starting Point for Fashion strategy is the right answer for the future, enabling us to grow our active customer base, to deepen customer relationships, and to expand our partner platform, resulting in a reduction in impact by one class for the cluster from very high to high compared to 2019.

IT Security

(includes 2019 top risk – Cybersecurity Threats – remains top risk in 2020)

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. These threats may affect the availability of Zalando's data or information systems (data is lost), integrity (data is corrupted), and confidentiality (data is breached). If a cyber attack (especially on a large scale) is successful, Zalando may suffer severe damage, which may ultimately result in revenue loss (now and in the future), compensation payments to customers and partners, extortion payments, damage to reputation, or repair efforts. 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 like the IT Security Team to identify, detect, protect, respond, and recover from dangers relating to cybersecurity threats and incidents.

User Experience

(includes 2019 top risk – Lack of State-Of-The-Art Shops – remains top risk in 2020)

To meet the rising and changing needs and expectations of our customers and realize market opportunities, innovative and appropriate adjustments to the User Experience are constantly required. Neglecting the necessary changes 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 and coordinates the corresponding implementation with other teams. Results of the constant innovations in 2020 were for example the web and app redesign, the introduction of a new category for pre-owned fashion and the improvement of new customer onboarding and retention through User Experience improvements.

Data Protection

(includes 2019 top risk – Data Protection Requirements – remains top risk in 2020)

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 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.

4.3.3 Illustration of Opportunities

Given the definition of an opportunity as a positive deviation from planned values, we identified a material opportunity to continue to benefit from lower return rates below pre-COVID-19 levels as a result of changing customer behaviour. Going outside the materiality boundary, our major initiatives such as deepening customer relationships, enabling partners on our platform and our do.MORE strategy continue to be seen as key drivers that put us in a position to seize opportunities and provide lasting support for our growth targets.

Overview Opportunities

		2020		2019	
Single Opportunity	**Assessment**	**Impact**	**Probability**	**Impact**	**Probability**
Return Rate Reduction	Material (new)	High	Medium	-	-

Return Rate Reduction

High return rates have a major impact on our logistics costs. A significant reduction in return rates, as recently experienced in the wake of COVID-19 and the associated changes in Zalando's customer mix, shopping basket composition, and category mix represents a material, yet most likely temporary opportunity to boost profitability.

In order to seize the long term opportunity and to maintain a lower return rate than in previous years, even after the COVID-19 pandemic, we have launched several initiatives to improve sizing, product presentation, and return bundling.

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 and inspiration as two crucial elements in tailoring the Zalando customer experience. For this purpose, our teams are developing the customer and partner experience by building software, using data and applying algorithms, including algorithms in artificial intelligence (AI).

Aside from our digital 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 improving our payment services to deepen our relationships with our customers.

We know that many of our customers want to make more sustainable choices but the fashion industry doesn't always make it easy for them. At Zalando, finding and shopping for more sustainable fashion will be clear and simple, ensuring our customers have the inspiration and information they are looking for, all in one place. Through new collections, we'll make sustainability more desirable than ever.

Strategic Partnerships

Since our founding days, our relationship with partners has been a key 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.

During the COVID-19 pandemic the importance to unite with our partners and to find joint solutions to deal with this unprecedented situation has become more important than ever. Our Partner Program enables brands and retailers to sell their merchandise via the Zalando platform, while they maintain full control over their offer, content and pricing. 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.

Furthermore, we are supporting our partners to maneuver through the COVID-19 crisis by enabling them to sell their offline inventory via our platform using our Connected Retail business. To continue this successful cooperation, we will expand the Connected Retail business to additional markets.

Looking ahead to 2021, the digital acceleration of the fashion ecosystem is only getting started, implying continued strong growth for fashion e-commerce[10]. We believe it is a perfect time for brands to make the most of the shift to online, capture growth opportunities and gain market share across Europe. To support this journey, Zalando is offering holistic technology solutions tailored to partners' specific needs including integration services, Zalando Marketing Services (ZMS) as well as Zalando Fulfillment Solutions (ZFS).

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 scalable, effective and efficient performance and brand marketing services.

ZFS and our Shipping Solutions (ZSS) makes our logistics infrastructure available to partners and provides them with access to 17 markets in Europe. Through this service, our partners can leverage Zalando's logistic capabilities to scale up their businesses internationally and provide Zalando's delivery standards to their customers across Europe.

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 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 3,500 brands and more than 700,000 product choices in our categories' Men, Women, Children, Beauty, Sport and Designer. To take the next step and be in line with our growth and do.MORE strategy, we will continue to expand our range of more sustainable products with the goal of generating

10) Euromonitor, Europe excl. Russia, and accessories (no forecast data on accessories available)

20%[11] of our GMV with sustainable products in 2023. To seize this opportunity, we will try to bring more sustainable brands onto our platform, work closely with sustainable industry partners like the Sustainable Apparel Coalition and further increase the sustainability of our private label products, as we have already done with our private label ZIGN, where all products fulfill the sustainability criteria.

To further support our do.MORE strategy and to take the next steps in solving further fashion needs of our customers, we are expanding our offering of pre-owned fashion, by enabling customers to buy quality-assured pre-owned items and to trade in unwanted fashion to us. We thereby 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, we can help extend the life of fashion products and add a loop to the linear fashion system.

11) Based on our fast progress, we upgrade our target to 25% by 2023 in March 2021.

4.4 Outlook

- Continued positive outlook for online fashion retail in Europe and Germany.
- Online fashion sales are expected to grow by 14.2%[12] in Europe and 13.4%[13] in Germany in 2021.
- Zalando aims to continue to grow significantly faster than the online fashion market, further expanding its market share.
- GMV growth of 27%–32% is forecast for 2021, revenue growth forecast to be in a 24%–29% corridor; adjusted EBIT expected between EUR 350m and EUR 425m.

4.4.1 Future Overall Economic and Industry-Specific Situation

In 2021, the European fashion sector is expected to recover slightly from the COVID-19 effects and increase by 8.7% to EUR 380bn[14]. For Germany, the recovery is expected to be slightly faster at 17.2% with a trade volume of EUR 71bn, EUR 6bn below the 2019 level before the COVID-19 pandemic.

The online fashion market is expected to continue its accelerated growth of 14.2% in Europe in 2021, with Germany, in particular, showing a further increase of 13.4% in projected growth. The strong increase is also supported by the further growth of mobile e-commerce, which is expected to grow by 17.4%[15] in Europe in 2021.

We believe, our core strength in innovation and technology combined with wide brand awareness among European consumers, a large and highly engaged customer base, strong supplier relationships, our infrastructure footprint and expertise in fashion put us in an excellent position to benefit from the growing consumer demand for online offerings and the increased focus of fashion brands and retails on digital channels.

4.4.2 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. We believe that growing our active customer base and building deep relationships with European fashion customers will make Zalando even more relevant for our brand partners. And in close partnership with our brand partners, we believe we will 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 to further increase our market share as we remain convinced that this represents the value-maximizing strategy for the company in the long term.

For the fiscal year 2021 Zalando expects to grow GMV in its 27% to 32% target corridor, while revenue growth is forecast to be in a 24% to 29% corridor, trailing GMV growth as a result of the ongoing platform transition. We expect the continued strong GMV and revenue growth in 2021 to be primarily driven by an increase in the active customer base as well as an

12) Euromonitor, Europe excl. Russia, and accessories (no forecast data on accessories available)
13) Euromonitor, Germany excl. accessories (no forecast data on accessories available)
14) Euromonitor, Europe excl. Russia
15) Euromonitor, Germany

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 350.0m to EUR 425.0m (EBIT EUR 300.0m to EUR 375.0m) (fiscal year 2020: adjusted EBIT of EUR 420.8m; EBIT of EUR 367.0m).

The company will continue to invest into logistics and technology and plans capital expenditure of around EUR 350.0m to EUR 400.0m in 2021 (2020: EUR 250.0m).

4.4.3 Overall Assessment by the Management Board of ZALANDO SE

Overall, the Management Board views the development in fiscal year 2020 as very successful and the economic position of Zalando as very positive. 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 2021, Zalando expects to be able to continue the positive business performance seen in the past fiscal years.

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

4.5 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.

4.5.1 Business Activity

ZALANDO SE is the parent company of the Zalando group. Its registered office is the corporate headquarters in Berlin. The company runs a European online fashion and lifestyle platform and connects customers, brands and partners. Its operating activities mainly include the development, sourcing, marketing, the retail and commission sale of various types of goods, in particular clothing and shoes, as well as related consumer and partner facing services. Other responsibilities include management of online destinations, 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 (IFRS) 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.

4.5.2 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 growth and improved profitability. The strong growth was in particular driven by the accelerated consumer demand shift towards digital offerings in the course of the ongoing coronavirus pandemic, the company's focused execution of the platform strategy and the decisive crisis response.

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

IN EUR M	Jan 1 – Dec 31, 2020	As % of sales	Jan 1 – Dec 31, 2019	As % of sales	Change in percentage points
Revenue	7,913.6	100.0%	6,391.0	100.0%	0.0pp
Own work capitalized	49.6	0.6%	40.1	0.6%	–0.0pp
Other operating income	179.6	2.3%	114.2	1.8%	0.5pp
Cost of materials	–4,294.9	–54.3%	–3,549.3	–55.5%	1.3pp
Gross profit	**3,847.8**	**48.6%**	**2,996.0**	**46.9%**	**1.7pp**
Personnel expenses	–430.0	–5.4%	–372.8	–5.8%	0.4pp
Amortization and depreciation	–66.1	–0.8%	–57.9	–0.9%	0.1pp
Other operating expenses	–3,086.6	–39.0%	–2,457.4	–38.5%	–0.6pp
Operating result	**265.1**	**3.3%**	**107.9**	**1.7%**	**1.7pp**
Financial result	**–22.5**	**–0.3%**	**–32.5**	**–0.5%**	**0.2pp**
Result from ordinary business activities	**242.5**	**3.1%**	**75.4**	**1.2%**	**1.9pp**
Income taxes	–72.6	–0.9%	–39.5	–0.6%	–0.3pp
Net income for the year	**170.0**	**2.1%**	**35.9**	**0.6%**	**1.6pp**
Operating result margin	3.3%	0.0%	1.7%	0.0%	1.7pp

In the reporting period, Zalando increased its revenue by EUR 1,522.7m to EUR 7,913.6m. The 23.8% increase in revenue is the result of a larger customer base and stronger customer engagement, as exemplified by a higher number of orders (28.0%). The considerable rise in these revenue drivers was enabled by outstanding growth in new customers as the consumer demand shift towards digital offerings accelerated in the course of the ongoing coronavirus pandemic.

In the current fiscal year, the DACH countries generated 46.3% of the total revenue. At the same time, revenue recorded in the other European countries climbed solidly, contributing to the overall growth.

Revenue of ZALANDO SE by Geographical Region

IN EUR M	2020		2019		Changes	
DACH*	3,667.4	46.3%	2,935.5	45.9%	731.9	24.9%
Rest of Europe**	4,246.3	53.7%	3,455.5	54.1%	790.8	22.9%
Total	**7,913.6**	**100.0%**	**6,391.0**	**100.0%**	**1,522.7**	**23.8%**

*) 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 income from foreign currency translation and group recharges.

The cost of materials rose by EUR 745.6m to EUR 4,294.9m, in line with the expansion of business. Overall, the company generated a gross profit of EUR 3,847.8m in fiscal year 2020 (prior year: EUR 2,996.0m).

Personnel expenses rose by EUR 57.2m to EUR 430.0m, in line with the rise in the number of employees. In 2020, the average headcount increased by 460 on the prior year from 4,532 to 4,992 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 increase of EUR 629.3m is primarily due to an increase in logistic and marketing as well as payment costs. The logistic and marketing cost increase was mainly driven by the expansion of the business. Payment costs increase was also strongly impacted by increased factoring costs, as factoring started in H2 2019, but was ongoing for the full year 2020.

The operating result for the year of EUR 265.1m increased by 1.7 percentage points, mainly due to a higher gross profit margin and slightly improved personnel costs, partly offset by higher payment costs.

The financial result mainly comprises interest expense of EUR 70.6m (prior year: EUR 27.7m) and interest income of EUR 43.5m (prior year: EUR 31.9m), as well as income from profit transfers of EUR 8.1m (prior year expense of EUR 5.5m) during the reporting period. Interest expense increased mainly due to increased expenses from financial instruments as well as interest from the convertible bond and the new bank loan.

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 2020 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, 2020	Jan 1 – Dec 31, 2019
Deferred taxes	17.8	14.6
Current taxes in Germany	–90.3	–54.1
Total	**–72.6**	**–39.5**

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, 2020		Dec 31, 2019		Changes
Non-current assets	1,799.4	30.3%	1,448.4	37.5%	350.9
Current assets	4,087.7	68.9%	2,389.7	61.9%	1,698.1
Prepaid expenses	18.6	0.3%	16.4	0.4%	2.2
Deferred tax assets	24.3	0.4%	6.5	0.2%	17.8
Total assets	**5,930.0**	**100.0%**	**3,861.0**	**100.0%**	**2,069.0**

Equity and Liabilities

IN EUR M	Dec 31, 2020		Dec 31, 2019		Changes
Equity	1,932.1	32.6%	1,647.7	42.7%	284.4
Special items for government grants	–0.0	–0.0%	0.0	0.0%	0.0
Provisions	553.6	9.3%	467.6	12.1%	86.1
Liabilities	3,441.7	58.0%	1,744.0	45.2%	1,697.6
Deferred income	2.6	0.0%	1.8	0.0%	0.8
Deferred tax liabilities	0.0	0.0%	0.0	0.0%	0.0
Total equity and liabilities	**5,930.0**	**100.0%**	**3,861.0**	**100.0%**	**2,069.0**

The total assets of ZALANDO SE rose by around 53.6% primarily due to a further increase in liquidity from financing transactions as well as further increase in business volume and increased investments. The assets of ZALANDO SE primarily consist of financial and current assets, specifically securities and cash, shares in affiliated companies as well as inventories and receivables. Equity and liabilities comprise equity and current and non-current liabilities and provisions.

In fiscal year 2020, additions to non-current assets mainly related to intangible assets (EUR 57.6m) and financial assets (EUR 609.1m), relating mainly to loans to affiliates (EUR 417.8m) and shares in affiliates (EUR 191.4m).

In fiscal year 2020, inventories solely comprised merchandise used in the core operational business of ZALANDO SE.

The equity ratio stood at 32.6% (prior year: 42.7%).

Provisions and liabilities increased by EUR 1,783.7m to EUR 3,995.3m impacted by the issuance of the convertible bond of EUR 1,000.0m and new bank loans of EUR 375.0m. The remaining increase is in line with the expansion of business. As of December 31, 2020, this figure mainly pertains to the convertible loan, bank loans, 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 449.8m were transferred to various factors as of December 31, 2020 (December 31, 2019: EUR 394.5m). These are recognized in the statement of financial position under trade payables and similar liabilities.

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 2020, Zalando generated a positive cash flow from operating activities of EUR 500.1m (prior year: EUR 244.3m). Further to an increase in income (from EUR 35.9m in the prior year to EUR 170.0m in the reporting year), cash flow from operating activities increased largely due to a higher cash inflow from intercompany receivables and other liabilities.

The cash flow from investing activities in fiscal year 2020 was mainly driven by increases in loans to affiliates and capital increases in subsidiaries that were used to invest in the fulfillment infrastructure, as well as to further expand the respective business segments of the subsidiaries. Cash and cash equivalents consist of cash on hand and bank balances as well as fixed-term deposits at financial institutions and in money market funds due within three months.

Cash flow from financing activities mainly contains cash inflows from the issuance of two tranches of convertible bonds and from new bank loans.

4.5.3 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.

4.5.4 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, March 15, 2021

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

4.6 Report on Equality and Equal Pay for ZALANDO SE[16]

In accordance with Section 21 German Act on Transparency of Pay (Entgelttransparenzgesetz).

4.6.1 Diversity and Inclusion at Zalando

At Zalando we strive to be a diverse and inclusive company because we are convinced that it will make us a more successful business in the long term. It will allow us to more fully and holistically understand the broad and diverse customer base that we serve. It will allow us to continue to compose multi-talented and highly motivated teams, and make better decisions by incorporating more viewpoints.

In 2019, we set ourselves the target to achieve a balanced representation of both women and men which is indicated by a share of 40-60% for both genders in each of our top six leadership levels by the end of 2023. In 2020, for the external public, Zalando published an annual Diversity and Inclusion Report do.better on the progress of diversity and inclusion.

Our measures to develop women focuses on boosting our talent pool where we actively hire for women in leadership and have a specific focus on women in tech. We are also identifying alternative talent pools within Zalando for tech roles, giving women who sit in other areas of the business the opportunity to transfer and expand their skill sets, to strengthen our internal pipeline and bring more women into leadership positions.

To enable women's career development within Zalando, we continue to evaluate our internal promotion processes and we continue to train our promotion committees around unconscious biases. Career development at Zalando also includes supporting women through mentoring, women networks and family support measures.

We recognize that having a supportive and inclusive environment for diverse employees is imperative to our success. We have rolled out our employee resource group (ERG) program to support communities within Zalando organized around shared identity or experience. We currently have nine ERGs who are actively sharing their voice and supporting community well-being.

Understanding how our diverse employees feel at work is a priority for us and we use learnings from zBeat, our quarterly internal employee survey. Therefore we have added explicit questions on Diversity and Inclusion to have insights on experiences of our diverse employees.

Measures to Promote Equal Pay

At Zalando, we are committed to pay salaries based on objective criteria and regardless of gender. We continue to drive a centralized process for salary reviews based on defined criteria aimed to assure fairness for individual pay decisions and to reduce the impact of factors that could lead to potential bias. Our salary bands are reviewed annually to ensure we align our pay

16) The report on equality and equal pay for ZALANDO SE is not part of the audited combined management report.

to internal and external market driven data. The target pay range for each employee is role-based and is consistently applied across Zalando.

In addition to our standard processes, we analyze pay by gender. At ZALANDO SE, status October 2020, our wage gap is ~1%, when looking at the wage gap between women and men working in similar positions (with comparable roles, working hours, tenure and age).

When comparing women and men independent of their roles and any other factors, the wage gap amounts to 23.7%, which is largely explained by the fact that Zalando currently employs more men than women in senior positions and tech job families, which receive higher compensation. We are committed to further close that gap in the future.

4.6.2 Employee Statistics for ZALANDO SE

Average Headcount 2020

Men	2,552
Women	2,607

Average Headcount 2020 (Full-time/Part-time)

	Full-time	Part-time
Men	2,419	133
Women	2,234	373

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, March 15, 2021

The Management Board

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

6.1 Corporate Governance Statement

In the following, the Management Board and Supervisory Board submit the corporate governance statement pursuant to Sections 289f and 315d HGB (German Commercial Code). The corporate governance statement is the core instrument of corporate governance reporting (Principle 22 of the German Corporate Governance Code, the “Code 2020”). In accordance with Sections 289f and 315d HGB, the corporate governance statement forms part of the combined management report.[17] 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.

6.1.1 Declaration of Conformity

The Management Board and Supervisory Board of ZALANDO SE issued the following declaration regarding the recommendations of the Government Commission German Corporate Governance Code in accordance with Section 161 AktG (German Stock Corporation Act) in December 2020 and published it on the company’s website:

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 2017”) since the publication of the last annual declaration of conformity in December 2019, with the following exceptions:

— **1. No. 3.8 Paragraph 3:** according to the Code 2017 recommendations, a deductible shall be agreed upon for the members of the Supervisory Board when taking out D&O policies. The company takes the view that such a deductible is not in itself suitable to increase the performance and sense of responsibility of the Supervisory Board members. Furthermore, it reduces the attractiveness of Supervisory Board positions and thus the company’s opportunities when competing for qualified Supervisory Board candidates.

— **2. No. 4.2.1 Sentence 1:** according to the Code 2017 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 in 2019, 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 2017 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.

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

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 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 April 1, 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 2017.

The Code 2017 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 term appointment commencing on December 1, 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 2017 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.

The Management Board and the Supervisory Board of ZALANDO SE declare that ZALANDO SE acts in conformity, and will continue to act in conformity, with the recommendations of the Government Commission German Corporate Governance Code in its version of December 16, 2019 published by the Federal Ministry of Justice and Consumer Protection on March 20, 2020, in the official section of the Federal Gazette (Bundesanzeiger) (hereinafter the “Code 2020”), with the following exception:

The recommendations concerning the remuneration of the Management Board in section G.I of the Code 2020 are closely related to the changes of the German Stock Corporation Act (Aktiengesetz) resulting from the German Act implementing the Second Shareholders' Rights

Directive (ARUG II). The Company makes use of the transitional provisions provided therein and will present a new remuneration system for the Management Board based on the new recommendations in section G.I of the Code 2020 to the Annual General Meeting 2021 for approval.

6.1.2 Corporate Governance

Zalando's corporate governance is determined by applicable law, the recommendations set out in the German Corporate Governance Code, as well as internal (group) policies and rules of procedure. Zalando's sustainability efforts form an integral part of its corporate governance. More information on Zalando's sustainability strategy and activities can be found in our sustainability progress report which can be found on our corporate website.

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. In the first quarter of 2020, the Code of Ethics was updated, followed by a holistic roll-out of the new version to the whole Zalando group. Thereby, Zalando once again stressed the importance of ethical behavior.

Under the Code of Ethics, all employees are required inter alia to comply with the law and our group policies, including, but not limited to, anti-corruption practices, antitrust regulations, data protection and insider compliance, and tax provisions. The Code of Ethics is structured around four sections: together we win, we focus on what matters, we act like owners, we follow the law. 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 (sanction list screening and compliance database and adverse media checks, followed by an in depth review carried out by the Compliance & Business Ethics Team in case of findings) for defined groups of business partners[18] 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

18) According to commodity groups, namely logistic services, professional services, corporate property, packaging and direct business partners in sourcing for private labels and in overstock management.

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 & Business Ethics Team followed up on external audit recommendations from 2019 to further improve the compliance management system of ZALANDO SE.

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 facilitate personal contact with the central Compliance & Business Ethics Team. Due to the ongoing COVID-19 pandemic in the reporting period, the face-to-face format was conducted via video chat without any recognizable constraints for trainers or participants.

In the reporting period, 43 compliance basics face-to-face training courses were carried out (2019: 41). Since March, the trainings were conducted via video chat due to the ongoing pandemic situation. 4,116 employees completed the compliance basics e-learning courses (2019: 4,263), among them 2,277 employees of ZALANDO SE (2019: 2,164). Each mandatory training course is followed by mandatory refresher courses every other year. Employees receive an automatic reminder to fulfill their training obligations. If the employees do not fulfil their obligations, the lead will be informed and reminded repeatedly until the training is completed.

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 is fundamental to Zalando because it is essential to our customer and their trust in our products and services. Our customer's trust is the basis for a long-term customer relationship. Zalando ensures regular employee privacy training and designed actionable privacy principles to create awareness and guardrails for privacy compliant business design and conduct. For its employees, Zalando has a dedicated on-line resource with guidance on how it handles employee data and sets out rights employees have in relation to personal data they share with Zalando. Specialized privacy roles support all business divisions with guidelines and standards to ensure proper safeguards are implemented across the company and its group entities. Zalando is regulated under European and national data protection regulations and we closely monitor the changing legal requirements.

Various communication channels are available to facilitate the reporting of presumed compliance infringements to the Compliance & Business Ethics Team. They can inter alia be reported – in various languages – via 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. The Compliance & Business Ethics Team and the Risk Management Team work closely together with the Legal Team and the Internal Audit in fulfilling their tasks in a cross-functional approach.

The Management Board bears overall responsibility for the proper functioning of the risk and compliance management system as well as the system of internal controls 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 and employee representatives bodies 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, typically every week, 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.

Composition of the Management Board

The members of the Management Board shall have the knowledge, skills and professional experience required to duly fulfil their 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.

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 1.3.4).
— 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.

The members of the Management Board of ZALANDO SE are not members of a statutory supervisory boards or members of a comparable controlling body in Germany or abroad.

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 Supervisory Board has adopted Rules of Procedure. The Rules of Procedure are published on the company's corporate website[19]. 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 effectiveness of its own activities and those of its committees. For this purpose, the Supervisory Board members complete a detailed questionnaire on the effectiveness of the Supervisory Board's and committees' work at the beginning of each year. The findings of the self-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. Details of the self-assessment in the reporting period can be found in the Report of the Supervisory Board. 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. The members of the Supervisory Board must have the knowledge, skills and professional experience required to duly fulfil their tasks and responsibilities and must make sure that they have sufficient time to perform their 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, innovation and sustainability. Compared to the previous year, sustainability competence was added to the competence profile of the Supervisory Board to highlight the commitment of the Supervisory Board to support the company's stand on sustainability issues and the implementation of the do.More strategy 2023 as an essential component of the Zalando strategy. The members of the Supervisory Board as a group must be familiar with the sector in which the company operates.

19) https://corporate.zalando.com/en/company/supervisory-board

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 1.3.4).

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 Code 2020 and no fewer than two shareholder representatives shall be independent from a controlling shareholder, if any, as defined in Recommendation C.9 of the 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 2020 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.

The following overview shows the profile of skills and expertise of the Supervisory Board as well as the independence of the shareholder representatives.

Composition of the Supervisory Board

Name of Supervisory Board member	Nationality	Profession	Profile of Skills and Expertise						
			Industry	Finance	Strategy	Super-vision	Inno-vation	Sustain-ability	Indepen-dence
Cristina Stenbeck	Swedish	Entrepreneur, investor and member of boards of directors			✓	✓	✓	✓	✓
Kelly Bennet	Canadian	Board member and Executive Advisor	✓		✓		✓		✓
Jennifer Hyman	US-American	Chief Executive Officer and Co-Founder at Rent the Runway, Inc.	✓		✓	✓	✓	✓	✓
Jørgen Madsen Lindemann	Danish	Investor			✓	✓	✓	✓	✓
Anders Holch Povlsen	Danish	Chief Executive Officer of Bestseller A/S	✓		✓	✓		✓	
Mariella Röhm-Kottmann	German	Senior Vice President, Head of Corporate Accounting of ZF Friedrichshafen AG		✓		✓		✓	✓
Matti Ahtiainen	Finnish	Employee of Zalando Finland Oy (Technology Controlling)	✓	✓					*
Jade Buddenberg	German	Employee of ZALANDO SE (Sustainability & Business Development)	✓		✓		✓	✓	*
Anika Mangelmann	German	Employee of ZALANDO SE (Project Manager People & Organisation)	✓						*

*) In accordance with the German Corporate Governance Code, as a principle, the Supervisory Board does not take the independence of employee representatives into consideration.

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 such 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	Memberships in supervisory boards whose establishment is required by law or in comparable domestic or foreign controlling bodies of business enterprises
Matti Ahtiainen	–
Kelly Bennett (Deputy chairperson)	Ancestry.com, USA (member of the Supervisory Board)
Anthony Brew (Supervisory Board member until June 23, 2020)	–
Jennifer Hyman	The Estée Lauder Companies Inc., USA (member of the Board of Directors)
Mariella Röhm-Kottmann	ZF Services Espana, S.L., Spain (member of the Board of Directors) Compagnie Financière de ZF SAS, France (member of the Supervisory Board, chairperson)
Jørgen Madsen Lindemann*	Turtle Entertainment GmbH, Germany (member of the Advisory Board until September 2020)
Anika Mangelmann	–
Jade Buddenberg	–
Anders Holch Povlsen**	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 IP HK Limited, Hong Kong (member of the Board of Directors) J.Lindeberg Holding (Singapore) Pte. Ltd., Singapore (member of the Board of Directors) Foundation Conservation Carpathia (FCC), Romania (member of the Board of Directors)

*) Mr. Lindemann was also member of Boards of Directors at various foreign group entities of the Modern Times Group MTG until September 2020.

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

Current and Past Mandates of the Supervisory Board

Name of Supervisory Board member	**Memberships in supervisory boards whose establishment is required by law or in comparable domestic or foreign controlling bodies of business enterprises**
Alexander Samwer (Supervisory Board member until June 23, 2020)	–
Konrad Schäfers (Supervisory Board member until June 23, 2020)	–
Beate Siert (Supervisory Board member until June 23, 2020)	–
Cristina Stenbeck (Chairperson)	Spotify Technology S.A., Luxembourg (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 from August 2020) GoEuro Corp. (trading under the brand Omio), Delaware USA (member of the Board of Directors until September 2020) Björkö Gård AB, Sweden (member of the Board of Directors until October 2020) Ameriana AB, Sweden (member of the Board of Directors until December 2020) Three Daughters S.à r.l., Luxembourg (member of the Board of Managers until December 2020) CS Stiftelse för Nästa Generation, Sweden (member of the Board of Directors until November 2020) Camsten AB, Sweden (member of the Board of Directors until December 2020) Camshaft Skog AB., Sweden (member of the Board of Directors until December 2020) Äggsjöns Vildmark AB, Sweden (member of the Board of Directors until December 2020) House of Kraft AB, Sweden (member of the Board of Managers until December 2020)

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 Committee
Mariella Röhm-Kottmann (chairperson)
Matti Ahtiainen (since June 23, 2020)
Kelly Bennett
Jørgen Madsen Lindemann
Konrad Schäfers (until June 23, 2020)

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.

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)
Kelly Bennett (since June 23, 2020)
Jennifer Hyman (since June 23, 2020)
Anika Mangelmann (since June 23, 2020)
Alexander Samwer (until June 23, 2020)
Cristina Stenbeck (until June 23, 2020)
Beate Siert (until June 23, 2020)

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, 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 the 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

Cristina Stenbeck (chairperson)
Jørgen Madsen Lindemann
Anders Holch Povlsen

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

Zalando attaches great importance to inclusion and diversity throughout the company and 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 our first Diversity & Inclusion report which can be found on our corporate website.[20]

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 December 31, 2023.

As of December 31, 2020, 56% women are represented on the Supervisory Board, 0% women are represented on the Management Board, 30% women are represented on the first management level below the Management Board and 22% women are represented on the second management level below the Management Board.

20) https://corporate.zalando.com/en/diversity-inclusion

6.1.5 Takeover Law Disclosures Pursuant to Sections 289a (1), 315a (1) HGB and Explanatory Report[21]

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 2,125,734 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 2020, 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 1.4 The Zalando Share – 2020 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 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.

21) 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 statement with the declaration of conformity.

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

The Management Board is authorized to increase the registered share capital of the company until June 22, 2025, with the consent of the Supervisory Board, once or several times, by up to a total of EUR 100,266,384 by issuing up to 100,266,384 new no-par value bearer shares against contributions in cash and / or in kind (Authorized Capital 2020). 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. 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 23, 2020. 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 8,817,500 by issuing up to 8,817,500 new 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, July 11, 2014, and of June 23, 2020. 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 3,442,394 by issuing up to 3,442,394 new 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 and of June 23, 2020. 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 of the company is conditionally increased by up to EUR 3,340,236 against contribution in cash and in kind by issuing up to 3,340,236 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 share capital is conditionally increased by up to EUR 75,199,787 by issuing up to 75,199,787 new no-par value bearer shares (Conditional Capital 2020). 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 22, 2025, 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 23, 2020, under agenda item 11 lit. b) 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 new shares from the Conditional Capital 2013, the Conditional Capital 2014, the Conditional Capital 2016, the Conditional Capital 2019 and the Conditional Capital 2020, 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 22, 2025, to acquire treasury shares for any permissible purpose totaling up to 10% of its registered capital as of the date of the resolution or as of the date on which the authorization is exercised if the latter value is lower. 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 22, 2025, 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 8 and 9 of the company's general meeting agenda for June 23, 2020, which was published in the German Federal Gazette on May 15, 2020, 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, the convertible bonds 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. In the event of a change of control, each bondholder is entitled to call all or any of its bonds that have not yet been converted or redeemed. If a bondholder cancels the bonds, the issuer must repay the bonds on the control acquisition date.

6.1.6 Remuneration Report[22]

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 financial year 2020 in accordance with the recommendations of the German Corporate Governance Code as of December 16, 2019 ("Code 2020") and Sections 314 and 315 HGB (German Commercial Code) as specified in German Accounting Standard 17 (hereinafter "GAS 17"). GAS 17 requires the disclosure of benefits

22) This remuneration report is part of the combined management report and also forms a component of the corporate governance statement.

split into performance-related and non-performance-related components with long-term incentives disclosed separately. Further, the remuneration report includes selected voluntary disclosures in accordance with practice in prior years.

It is planned to submit a new remuneration system to the annual general meeting for approval, which meets the requirements of Section 87a AktG (German Stock Corporation Act)[23] and is based on the recommendations of the Code 2020.

Remuneration of the Members of the Management Board

General Remarks

Principles of the Remuneration System

The remuneration system for the Management Board has a simple and transparent structure in our view. It consists, besides customary fringe benefits, of two components only: an annual fixed base salary and a share-based variable long-term incentive. A significant part of 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.

Procedure for Determining the Remuneration for the Management Board

The Supervisory Board has set up a remuneration committee consisting of four members, all of whom are considered independent within the meaning of the Code 2020. 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 Robert Gentz, Rubin Ritter and David Schneider (the “Co-CEOs”). 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 at that time both within the German market, including more or less similar-sized (M)DAX companies from various industries, and an international sector specific group, including more or less similar-sized technology-driven companies located in Europe and the US, as well as the recommendations of the German Corporate Governance Code applicable at that time.

The remuneration system for the Co-CEOs was approved by the Supervisory Board and the annual general meeting in May 2018. In due consideration of the feedback received from investors, the service agreements with the Co-CEOs that implemented the new remuneration system were concluded in August 2018 for a 5-year term commencing on December 1, 2018.

23) Section 87a AktG entered into force on January 1, 2020. The first resolution on the remuneration system in accordance with Section 87a AktG must be made until the end of the first annual general meeting following December 31, 2020 (Section 26j Para.1 Sentence 1 Gesetz zur Umsetzung der zweiten Aktionärsrechterichtlinie, ARUG II (act on the implementation of the second shareholder rights directive, ARUG II) of December 12, 2019).

An assessment has shown 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, who were appointed to the Management Board with effect as of April 1, 2019. Although there are certain differences between the compensation packages that reflect the various 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 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 Jim Freeman and David Schröder best fit the needs of Zalando as a high-growth company.

The remuneration committee is currently engaged in the implementation of a new remuneration system for the Management Board, which meets the requirements of Section 87a AktG and is based on the Code 2020. The remuneration committee is supported by independent advisors. The new remuneration system will be submitted to the annual general meeting 2021.

In light of the COVID-19 pandemic, in April 2020, the members of the Management Board agreed to waive a certain share of their fixed and performance-based remuneration for the period of April until December 2020, which is deducted from their granted options. Due to the exceptionally good and much faster than expected recovery of the company from the first wave of the COVID-19 crisis, the members of the Management Board agreed not to extend their voluntary waiver of options after June 2020.

Remuneration of David Schneider, Robert Gentz and Rubin Ritter

Non-Performance-Based Remuneration

Fixed Remuneration

The Co-CEOs David Schneider, Robert Gentz and Rubin Ritter receive a gross annual fixed base salary in the amount 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 Co-CEOs were entitled to non-cash payments (such as the use of company cars) and other benefits totaling EUR 43,619 in fiscal year 2020 (prior year: EUR 34,630). 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 of the date of the execution of the service agreements in August 2018 and then increased by 5%.

Vesting Scheme

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

However, by way of an exception from the above, if the appointment of a Co-CEO as member of the Management Board is revoked 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 after that.

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. The LTI 2018 was based on a challenging criterion as it requires that the company outperforms the expected continued strong growth of the European online fashion retail market between 2018 until 2023 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 7%[24] 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% payout reduction, the last step being (< 11.0% and ≥ 10.0%); below 10% CAGR the payout is zero:

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

Settlement Value and Cap

The beneficiary is entitled to the amount by which the share price as per the exercise date exceeds the exercise price of EUR 47.44. This amount is limited to a maximum of EUR 97.14 per option. In order to achieve this maximum amount, the company's share price will need to reach EUR 144.58. Depending on the type of options, the options may be settled by cash or by share settlement with new shares or with treasury shares.

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. 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).

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, 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	**0**	**–**	**0**	**–**	**0**	**–**
Outstanding as of Jan 1, 2020	**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	–
Waived during the year*	26,017	47.44	26,017	47.44	26,017	47.44
Exercised during the year	0	–	0	–	0	–
Outstanding as of Dec 31, 2020	**1,723,983**	**47.44**	**1,723,983**	**47.44**	**1,723,983**	**47.44**
Exercisable as of Dec 31, 2020	**0**	**–**	**0**	**–**	**0**	**–**
Weighted average remaining contractual life of options outstanding (in years)						
As of Dec 31, 2019		6.8		6.8		6.8
As of Dec 31, 2020		5.8		5.8		5.8
Weighted average share price (in EUR) for options exercised in						
2019		–		–		–
2020		–		–		–

*) Waived as part of the coronavirus pandemic saving measures.

Stock Option Program 2013 (SOP 2013)

Before the introduction of the LTI 2018, the Co-CEOs participated among others in the SOP 2013. The vesting period of the 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. Prior to July 27, 2020, the options could 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. As per resolution of the annual general meeting of the company and resolution of the Supervisory Board on June 23, 2020, the exercise periods under SOP 2013 have been amended as follows: the options can be exercised at any time outside of any blackout period, namely the period from the 45th calendar day prior to the company’s general meeting until the day of such general meeting, the period from the day on which the company or any of its affiliated companies publicly announces its offering of securities until the day on which the offer period for such offering closes and closed periods as set by the company’s general insider policies.

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, 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**
Outstanding as of Jan 1, 2020	**639,540**	**15.63**	**639,540**	**15.63**	**2,730,200**	**15.63**
Granted during the year	0	–	0	–	0	–
Forfeited during the year	0	–	0	–	0	–
Exercised during the year*	0	–	0	–	800,000	1.00
Outstanding as of Dec 31, 2020*	**532,265**	**1.00**	**532,265**	**1.00**	**1,332,675**	**1.00**
Exercisable as of Dec 31, 2020	**532,265**	**1.00**	**532,265**	**1.00**	**1,332,675**	**1.00**
Weighted average remaining contractual life of options outstanding (in years)						
As of Dec 31, 2019		3.0		3.0		3.0
As of Dec 31, 2020		2.0		2.0		2.0
Weighted average share price (in EUR) for options exercised in						
2019		–		–		40.28
2020		–		–		67.52

*) For 3,253,800 options, Rubin Ritter used the contractually agreed provision to reduce the exercise price to EUR 1.00 in 2018 and 2020. This has reduced the number of these options to 2,503,246 of which 200,000 were exercised in 2018, 170,571 in 2019 and 800,000 in 2020 at EUR 1.00. For 639,540 options, Robert Gentz and David Schneider each used the contractually agreed provision to reduce the exercise price to EUR 1.00 in 2020. This reduced the number of these options to 532,265.

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 the SOP 2011 vested in October 2018. The options can be exercised for an unlimited period of time, however until July 27, 2020 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. On June 23, 2020, the Supervisory Board resolved that, from that date, the options under SOP 2011 can be exercised at any time outside of any black-out period, namely the period from the 45th calendar day prior to the company's general meeting until the day of such general meeting, the period from the day on which the company or any of its affiliated companies publicly announces its offering of securities until the day on which the offer period for such offering closes and closed periods as set by the company's general insider policies. The beneficiaries have no claim to cash payment resulting from the SOP 2011.

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

SOP 2011

	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, 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**
Outstanding as of Jan 1, 2020	**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	635,800	5.65	635,800	5.65	0	–
Outstanding as of Dec 31, 2020	**0**	**–**	**0**	**–**	**74,800**	**5.65**
Exercisable as of Dec 31, 2020	**0**	**–**	**0**	**–**	**74,800**	**5.65**
Weighted average remaining contractual life of options outstanding (in years)						
As of Dec 31, 2019		Unlimited		Unlimited		Unlimited
As of Dec 31, 2020		Unlimited		Unlimited		Unlimited
Weighted average share price (in EUR) for options exercised in						
2019		–		–		–
2020		69.22		69.22		–

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

Pursuant to the respective provisions of the AktG, 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.

Amount of Compensation for 2020

The tables below show the Co-CEOs compensation for 2020, in accordance with practice in prior years, a differentiation is made between benefits granted and benefits received.

Robert Gentz
Member of the Management Board

IN EUR	Benefits granted				Benefits received		Benefits (GAS 17)	
	2020	2020 (min.)	2020 (max.)	2019	2020	2019	2020	2019
Non-performance-based remuneration								
Fixed compensation	65,000	65,000	65,000	65,000	65,000	65,000	65,000	65,000
Fringe benefits	12,490	12,490	12,490	10,825	12,490	10,825	12,490	10,825
Total	**77,490**	**77,490**	**77,490**	**75,825**	**77,490**	**75,825**	**77,490**	**75,825**
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)	–	–	–	–	40,419,302	–	–	–
SOP 2013 (2013 – 2018)	–	–	–	–	–	–	–	–
LTI 2018 (2018 – 2023)	–	–	–	–	–	–	–	–
Total	**–**	**–**	**–**	**–**	**40,419,302**	**–**	**–**	**–**
Pension expense	–	–	–	–	–	–	n.a.	n.a.
Total	**77,490**	**77,490**	**77,490**	**75,825**	**40,496,792**	**75,825**	**77,490**	**75,825**

David Schneider
Member of the Management Board

IN EUR	Benefits granted 2020	Benefits granted 2020 (min.)	Benefits granted 2020 (max.)	Benefits granted 2019	Benefits received 2020	Benefits received 2019	Benefits (GAS 17) 2020	Benefits (GAS 17) 2019
Non-performance-based remuneration								
Fixed compensation	65,000	65,000	65,000	65,000	65,000	65,000	65,000	65,000
Fringe benefits	18,431	18,431	18,431	12,177	18,431	12,177	18,431	12,177
Total	**83,431**	**83,431**	**83,431**	**77,177**	**83,431**	**77,177**	**83,431**	**77,177**
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)	–	–	–	–	40,419,302	–	–	–
SOP 2013 (2013 – 2018)	–	–	–	–	–	–	–	–
LTI 2018 (2018 – 2023)	–	–	–	–	–	–	–	–
Total	**–**	**–**	**–**	**–**	**40,419,302**	**–**	**–**	**–**
Pension expense	–	–	–	–	–	–	n.a.	n.a.
Total	**83,431**	**83,431**	**83,431**	**77,177**	**40,502,733**	**77,177**	**83,431**	**77,177**

Rubin Ritter
Member of the Management Board

IN EUR	Benefits granted 2020	2020 (min.)	2020 (max.)	2019	Benefits received 2020	2019	Benefits (GAS 17) 2020	2019
Non-performance-based remuneration								
Fixed compensation	65,000	65,000	65,000	65,000	65,000	65,000	65,000	65,000
Fringe benefits	19,046	19,046	19,046	11,628	19,046	11,628	19,046	11,628
Total	**84,046**	**84,046**	**84,046**	**76,628**	**84,046**	**76,628**	**84,046**	**76,628**
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)	–	–	–	–	–	–	–	–
SOP 2013 (2013 – 2018)	–	–	–	–	53,219,500	6,700,029	–	–
LTI 2018 (2018 – 2023)	–	–	–	–	–	–	–	–
Total	**–**	**–**	**–**	**–**	**53,219,500**	**6,700,029**	**–**	**–**
Pension expense	–	–	–	–	–	–	n.a.	n.a.
Total	**84,046**	**84,046**	**84,046**	**76,628**	**53,303,546**	**6,776,657**	**84,046**	**76,628**

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

Expenses from Share-Based Payments

IN EUR	Robert Gentz Jan 1 – Dec 31, 2020	Robert Gentz Jan 1 – Dec 31, 2019	David Schneider Jan 1 – Dec 31, 2020	David Schneider Jan 1 – Dec 31, 2019	Rubin Ritter Jan 1 – Dec 31, 2020	Rubin Ritter Jan 1 – Dec 31, 2019
Equity-settled	4,240,799	6,502,700	4,240,799	6,502,700	4,240,799	6,502,700
Total	**4,240,799**	**6,502,700**	**4,240,799**	**6,502,700**	**4,240,799**	**6,502,700**

Remuneration of Jim Freeman

Jim Freeman is CTO and served the company as SVP Engineering prior to his appointment as member of the Management Board on April 1, 2019.

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 19,387 in fiscal year 2020 (prior year since April 1, 2019: EUR 9,525). 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 the long-term incentive plan 2019, the LTI 2019. The LTI 2019 is in principle structured in a similar way to the LTI 2018. Like the LTI 2018, the 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 options, which are accounted for as Type C options under the 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, *inter alia*, to their prior vesting, the expiry 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.

With respect to negative tax consequences resulting for Jim Freeman as a citizen of the United States of America from the application of certain provisions of Sec. 409A of the U.S. Internal Revenue Code, specific rules of the LTI 2019 have been amended (the “restated LTI 2019”) and 68,500 options vested until March 31, 2020 have been canceled and settled by the company as cash and share consideration. The company has indemnified Jim Freeman from the penalty imposed on the settlement value and the remaining options under the restated LTI 2019, whereby the indemnity in relation to remaining options is capped at the amount which would have been payable if the relevant per-share value of the respective remaining options for purposes of calculating the respective penalties was EUR 55.00.

Vesting and Exercise Scheme

Under the LTI 2019, 17,125 options granted to Jim Freeman vest at the end of each quarter starting at the end of June 2019 until the end of March 2023. The exercisable number of 50% of the relevant vested options depend on the achievement of a performance criterion within the performance period (for details see below). The remaining 50% of the relevant vested options can be exercised irrespective of the achievement of a performance criterion after expiry of the waiting period. Vested options can only be exercised after the expiry of a waiting period of 1, 2, 3 or 4 years commencing on April 1, 2019.

Under the restated LTI 2019 (starting end of June 2020), the non-performance-based options granted to Jim Freeman vest at the end of each quarter or, in case the vesting date is falling on December 31, on November 1 of each calendar year. For non-performance-based options, the respective waiting period expires at the end of the applicable vesting date. The waiting period for performance-based options remains unchanged. Under the restated LTI 2019, the exercise period has been shortened and expires at the end of the calendar year within which the respective applicable waiting period expires.

As a rule, in all cases of premature termination of the office as a member of the Management Board, options which have not yet vested on the date of such termination will cease to vest and be forfeited without compensation. In certain situations of termination qualifying as 'bad leaver' events, even vested and unexercised options of Jim Freeman will be forfeited without compensation. However, by way of an exception from the above, if Jim Freeman's appointment as member of the Management Board is revoked 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.

Performance Period and Performance Criterion

The performance period commences 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 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. The LTI 2019 was based on a challenging criterion as it requires the expected continued strong growth of the European online fashion retail during the term of appointment as member of the Management Board to be outperformed 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%[25] until 2023.

25) 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. At a CAGR below 11%, the payout is 50%:

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 caped at EUR 99.00 per option. The options may be settled by cash or by share settlement with new shares.

Claims for Restitution
Neither the service contract of Jim Freeman, nor the LTI 2019 or restated 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. 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).

Virtual Stock Option Program 2018 (VSOP 2018)
Before the introduction of the LTI 2019 and his appointment to the Management Board on April 1, 2019, Jim Freeman participated in the VSOP 2018. Under the VSOP 2018 375,000 options with an exercise price of EUR 29.84 continued to vest in quarterly tranches after his appointment as member of the Management Board, and insofar are considered part of the Management Board remuneration. The exercise of the virtual options requires the achievement of the performance criterion which is determined in a compound annual growth rate of the Zalando group net merchandise value. The exercise of the virtual options requires the expiry of a lock-up period of two to five years.

With respect to negative tax consequences resulting for Jim Freeman as a citizen of the United States of America from the application of certain provisions of Sec. 409A of the U.S. Internal Revenue Code, specific rules of the VSOP 2018 have been amended (the “restated VSOP 2018”) and 250,000 options vested until April 1, 2020 have been canceled and settled by the company as cash and share consideration. The company has indemnified Jim Freeman from the penalty imposed under Sec. 409A of the U.S. Internal Revenue Code on the settlement value and the remaining options under the restated VSOP 2018, whereby the indemnity in relation to remaining options is capped at the amount which would have been payable if the relevant per-share value of the respective remaining options for purposes of calculating the respective penalties was EUR 55.00.

Under the restated VSOP 2018, the remaining options’ expiry date shall be the last day of the calendar year in which the respective lock-up period for such options expires.

The number of options outstanding under the restated LTI 2019 and restated VSOP 2018 of Jim Freeman developed as follows in the reporting period:

Jim Freeman

	Restated LTI 2019		Restated VSOP 2018	
	Number of options	Weighted average exercise price (in EUR)	Number of options	Weighted average exercise price (in EUR)
Outstanding as of Jan 1, 2019*	**0**	**–**	**500,000**	**29.84**
Granted during the year	274,000	1.00	0	–
Forfeited during the year	0	–	0	–
Exercised during the year	0	–	0	–
Outstanding as of Dec 31, 2019	**274,000**	**1.00**	**500,000**	**29.84**
Exercisable as of Dec 31, 2019	**0**	**–**	**0**	**–**
Outstanding as of Jan 1, 2020	**274,000**	**1.00**	**500,000**	**29.84**
Granted during the year	0	–	0	–
Forfeited during the year	0	–	0	–
Waived during the year**	2,446	1.00	4,026	29.84
Cancelled during the year***	68,500	1.00	250,000	29.84
Exercised during the year	24,463	1.00	0	–
Outstanding as of Dec 31, 2020	**178,591**	**1.00**	**245,974**	**29.84**
Exercisable as of Dec 31, 2020	**0**	**–**	**0**	**–**
Weighted average remaining contractual life of options outstanding (in years)				
As of Dec 31, 2019	6.3	–	3.8	–
As of Dec 31, 2020	1.9	–	1.8	–
Weighted average share price (in EUR) for options exercised in				
2019	–	–	–	–
2020	79.96	–	–	–

*) Part of the options outstanding already vested before Jim Freeman's appointment to the Management Board in April 2019, as specified in the explanations above.
**) Waiver in connection with voluntary contribution to COVID-19 pandemic saving measures.
***) Canceled and settled as cash and share consideration to mitigate negative tax consequences under Sec. 409A of the U.S. Internal Revenue Code.

Other Notes

Any sideline activity of any type during the term of his service agreement outside of the group requires the prior written consent of the Supervisory Board. The approval will be granted if the sideline activity does not adversely affect the company's best interests or the performance of services 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. During this period, the service contract can be terminated only for good cause. When Jim Freeman is dismissed as a member of the Management Board, the service agreement does not end automatically.

Pursuant to the respective provisions of the AktG, 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 agreement, there are no service or employment contracts between Jim Freeman or his related parties and the company or their subsidiaries.

Amount of Compensation for 2020

The table below shows the Management Board compensation of Jim Freeman. In accordance with practice in prior years, a differentiation is made between benefits granted and benefits received.

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

IN EUR	Benefits granted				Benefits received		Benefits (GAS 17)	
	2020	2020 (min.)	2020 (max.)	2019	2020	2019	2020	2019
Non-performance-based remuneration								
Fixed compensation	800,000	800,000	800,000	600,000	800,000	600,000	800,000	600,000
Fringe benefits	19,378	19,378	19,378	9,525	19,378	9,525	19,378	9,525
Total	**819,378**	**819,378**	**819,378**	**609,525**	**819,378**	**609,525**	**819,378**	**609,525**
Performance-based remuneration								
Short-term incentives (non-stock-based)								
One-year variable compensation	125,000	125,000	125,000	475,000	125,000	475,000	125,000	475,000
Long-term incentives (stock-based)								
Multi-year variable compensation								
409 A tax indemnification***	4,436,842	–	6,620,466	–	2,335,938	–	4,436,842	–
Settlement for option cancellations****	–	–	–	–	6,134,757	–	–	–
LTI 2019 (2019 – 2023)	–	–	–	7,930,058	1,945,236	–	–	7,930,058
Total	**4,561,842**	**125,000**	**6,745,466**	**8,405,058**	**10,540,930**	**475,000**	**4,561,842**	**8,405,058**
Pension expense	–	–	–	–	–	–	n.a.	n.a.
Total	**5,381,220**	**944,378**	**7,564,844**	**9,014,583**	**11,360,308**	**1,084,525**	**5,381,220**	**9,014,583**

*) Comprises all options granted under the LTI 2019 for the four-year contract term.
**) The company has at its sole discretion decided to settle two of the three option exercises in cash instead of shares.
***) Comprises the above mentioned indemnification Jim Freeman was granted and has received from the penalty imposed under Sec. 409A of the U.S. Internal Revenue Code. Part of this amount relates to options that were already vested before Jim Freeman's appointment to the Management Board.
****) Comprises the above-mentioned cash and share consideration received for options cancelled under LTI 2019 and VSOP 2018 to mitigate negative tax consequences under Sec. 409A of the U.S. Internal Revenue Code. Part of this amount relates to options that were already vested before Jim Freeman's appointment to the Management Board.

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

Expenses from Share-Based Payments

IN EUR	Jim Freeman	
	Jan 1 – Dec 31, 2020	Jan 1 – Dec 31, 2019
Equity-settled	3,686,364	2,615,769
Total	**3,686,364**	**2,615,769**

Remuneration of David Schröder

David Schröder is CFO and served the company as SVP Convenience prior to his appointment as member of the Management Board on April 1, 2019.

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 17,944 in fiscal year 2020 (prior year since April 1, 2019: EUR 9,101). 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 the long-term incentive plan 2019, the LTI 2019. The LTI 2019 is structured in a similar way to the LTI 2018. Like the LTI 2018, the 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 agreement a total number of 510,000 options, which are divided into 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 29.84 and Type B options have an exercise price of EUR 1.00.

The number of options which can be exercised is subject, *inter alia*, to their prior vesting, the expiry 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. Whereas the Type B options vest linearly, 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 premature termination of the office as a member of the Management Board, options which have not yet vested on the date of such termination will cease to vest and be forfeited without compensation.

In certain situations of termination qualifying as 'bad leaver' events, even vested and unexercised options of David Schröder will be forfeited without compensation. However, by way of an exception from the above, if David Schröder's appointment to the Management Board is revoked 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 expiry of a waiting period: options vested within the first year of the contract term may be exercised after the first anniversary of the commencing of the contract on April 1, 2019, options vested within the second year may be exercised after two years, options vested within the third year of the contract term may be exercised after three years and options vested within the fourth year of the contract term may be exercised after the fourth anniversary of the commencement of the contract on April 1, 2019. The number of vested Type A options assigned to the four 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. The LTI 2019 was based on a challenging criterion as it requires the expected continued strong growth of the European online fashion retail during the term of appointment as member of the Management Board to be outperformed by a factor of roughly 2. At the time of establishing the remuneration system for David Schröder, the online European fashion retail industry was projected to grow at a CAGR of 7%[26] until 2023.

100% of the vested options can be exercised if the CAGR equals or exceeds 15%. Otherwise, depending on the extent of the shortfall of the actual CAGR from such target CAGR, the percentage of the relevant vested options which can be exercised decreases by way of a step function with each 0.5ppt of CAGR below 15% resulting in a 10% payout reduction, the last step being (< 11.0% and ≥ 10.0%); below 10% CAGR payout 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%
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 capped at EUR 99.00 per Type B option and EUR 70.16 per Type A option. In order to achieve this maximum amount the company's share price will need to reach EUR 100. The options may be settled by cash or by share settlement with new shares.

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. 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).

Stock Option Program 2014 (SOP 2014)

Before the introduction of the LTI 2019 and his appointment to the Management Board, David Schröder participated among other senior level management members in the SOP 2014. Under the SOP 2014, 55,428 stock options with an exercise price of EUR 17.72 still continued to vest in quarterly tranches after his appointment as member of the Management Board as of April 1, 2019, and insofar are considered part of the Management Board remuneration. The last tranche vested on July 1, 2020. As of July 1, 2020, the contractual performance target was achieved and the waiting period of four years had expired. As of the reporting date, the stock options under SOP 2014 have been fully exercised.

Virtual Stock Option Program 2017 (VSOP 2017)

Before the introduction of the LTI 2019 and his appointment to the Management Board on April 1, 2019, David Schröder among other senior management members of the company participated in the VSOP 2017. Under the VSOP 2017 120,834 options (thereof 37,500 Type A with an exercise price of EUR 25.00 and 83,334 Type B Options with an exercise price of EUR 50.00) continued to vest in quarterly tranches after his appointment as member of the Management Board as of April 1, 2019, and insofar are considered part of the Management Board remuneration. Each virtual option entitles the beneficiary to receive a cash payment of the company, or – at the sole discretion of the company – shares in the company, in the amount equal to the excess of the closing price of the company's shares at XETRA of Frankfurt Stock Exchange over the exercise price for the relevant type of virtual options.

As of July 1, 2020, the last tranche of VSOP 2017 vested, the contractual performance target was achieved and the waiting period of three years had expired. As of the reporting date, the virtual options under VSOP 2017 have been fully exercised.

The number of options outstanding under LTI 2019, VSOP 17 and SOP 2014 of David Schröder developed as follows in the reporting period:

David Schröder

	LTI 2019		SOP 2014		VSOP 2017	
	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, 2019*	**0**	**–**	**100,000**	**17.72**	**290,000**	**42.24**
Granted during the year	510,000	23.62	0	–	0	–
Forfeited during the year	0	–	0	–	0	–
Exercised during the year	0	–	66,743	17.72	0	–
Outstanding as of Dec 31, 2019	**510,000**	**23.62**	**33,257**	**17.72**	**290,000**	**42.24**
Exercisable as of Dec 31, 2019	**0**	**–**	**0**	**–**	**0**	**–**
Outstanding as of Jan 1, 2020	**510,000**	**23.62**	**33,257**	**17.72**	**290,000**	**42.24**
Granted during the year	0	–	–	–	0	–
Forfeited during the year	0	–	–	–	0	–
Waived during the year**	6,058	23.37	0	–	3,936	35.42
Exercised during the year	0	–	33,257	17.72	286,064	42.47
Outstanding as of Dec 31, 2020	**503,942**	**23.62**	**0**	**–**	**0**	**–**
Exercisable as of Dec 31, 2020	**0**	**–**	**0**	**–**	**0**	**–**
Weighted average remaining contractual life of options outstanding (in years)						
As of Dec 31, 2019	6.3	–	3.5	–	2.5	–
As of Dec 31, 2020	5.3	–	–	–	–	–
Weighted average share price (in EUR) for options exercised in						
2019	–	–	39.76	–	–	–
2020	–	–	66.25	–	76.70	–

*) Part of the options outstanding already vested before David Schröder's appointment to the Management Board in April 2019, as specified in the explanations above.
**) Waiver in connection with voluntary contribution to COVID-19 pandemic saving measures.

Other Notes

Any sideline activity of any type during the term of his service agreement outside of the group requires the prior written consent of the Supervisory Board. Approval will be granted if the sideline activity does not adversely affect the company's best interests or the performance of services 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, 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 agreement, there are no service or employment contracts between David Schröder or his related parties and the company or their subsidiaries.

Amount of Compensation for 2020

The table below shows the Management Board compensation of David Schröder, in accordance with practice in prior years, a differentiation is made between benefits granted and benefits received.

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

	Benefits granted				Benefits received		Benefits (GAS 17)	
IN EUR	2020	2020 (min.)	2020 (max.)	2019	2020	2019	2020	2019
Non-performance-based remuneration								
Fixed compensation	500,000	500,000	500,000	375,000	500,000	375,000	500,000	375,000
Fringe benefits	17,944	17,944	17,944	9,101	17,944	9,101	17,944	9,101
Total	**517,944**	**517,944**	**517,944**	**384,101**	**517,944**	**384,101**	**517,944**	**384,101**
Performance-based remuneration								
Short-term incentives (non-stock-based)								
One-year variable compensation	–	–	–	–	–	–	–	–
Long-term incentives (stock-based)								
Multi-year variable compensation								
VSOP 2017*	–	–	–	–	9,830,559	–	–	–
SOP 2014*	–	–	–	–	1,614,056	1,471,016	–	–
LTI 2019** (2019 – 2023)	–	–	–	5,214,014	–	–	–	5,214,014
Total	**–**	**–**	**–**	**5,214,014**	**11,444,615**	**1,471,016**	**–**	**5,214,014**
Pension expense	–	–	–	–	–	–	n.a.	n.a.
Total	**517,944**	**517,944**	**517,944**	**5,598,115**	**11,962,559**	**1,855,117**	**517,944**	**5,598,115**

*) Relates to the exercise of options under SOP 2014 and VSOP 2017, programs granted to David Schröder before entering the Management Board in April 2019.
**) Comprises all options granted under the LTI 2019 for the four-year contract term.

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

Expenses from Share-Based Payments

	David Schröder	
IN EUR	Jan 1 – Dec 31, 2020	Jan 1 – Dec 31, 2019
Equity-settled	1,639,176	2,091,705
Total	**1,639,176**	**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 an annual fixed remuneration of EUR 65,000. The chairperson of the Supervisory Board receives a fixed remuneration of EUR 150,000 p.a. and the deputy chairman of the Supervisory Board receives a fixed remuneration of EUR 90,000 p.a. Supervisory Board members acting as members of the audit committee receive an additional fixed remuneration of EUR 15,000. The chairperson of the audit committee receives an additional remuneration of EUR 35,000. In addition to the remuneration mentioned above, the company reimburses the members of the Supervisory Board for reasonable out-of-pocket expenses that arise when performing their duties as Supervisory Board members as well as the value-added tax on their remuneration and out-of-pocket expenses. Supervisory Board members who hold office as members or chairpersons for only part of a fiscal year receive a proportionate share of remuneration. The remuneration of the Supervisory Board members falls due after the annual general meeting which approves the consolidated financial statements for the fiscal year for which the remuneration is paid or decides on their approval. The members of the Supervisory Board are covered by a D&O insurance policy held by the company.

Remuneration of the members of the Supervisory Board for fiscal year 2020 breaks down as follows:

Supervisory Board Remuneration

IN EUR	2020	2019
Alexander Samwer (until June 23, 2020)	30,986	65,000
Anders Holch Povlsen (since December 9, 2013)	76,918	90,000
Anika Mangelmann (since June 23, 2020)	34,014	0
Anthony Brew (until June 23, 2020)	30,986	65,000
Beate Siert (until June 23, 2020)	30,986	65,000
Cristina Stenbeck (since May 22, 2019)	150,000	91,896
Dominik Asam (until May 22, 2019)	0	38,736
Jade Buddenberg (since June 23, 2020)	34,014	0
Jennifer Hyman (since June 23, 2020)	34,014	0
Jørgen Madsen Lindemann (since May 31, 2016)	80,000	80,000
Kelly Bennett (since May 22, 2019)	93,082	49,011
Konrad Schäfers (until June 23, 2020)	38,137	80,000
Lothar Lanz (until May 22, 2019)	0	63,915
Mariella Röhm-Kottmann (since May 22, 2019)	100,000	61,264
Matti Ahtiainen (since June 23, 2020)	41,863	0
Shanna Prevé (until May 22, 2019)	0	25,179
Total	**775,000**	**775,000**

7.1 Independent Auditor's Report

To ZALANDO SE

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

Opinions

We have audited the annual financial statements of ZALANDO SE, Berlin, which comprise the balance sheet as at December 31, 2020, and the income statement for the fiscal year from January 1 to December 31, 2020 and notes to the financial statements, including the accounting and valuation methods 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, 2020. In accordance with the German legal requirements, we have not audited the content of the parts of the management report specified in the appendix to the auditor's 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, 2020 and of its financial performance for the fiscal year from January 1 to December 31, 2020 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 parts of the management report referred to in the appendix to the auditor's report.

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

Basis for the Opinions

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

Key Audit Matters in the Audit of the Annual Financial Statements

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the annual financial statements for the fiscal year from January 1 to December 31, 2020. 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 calculate 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 historical rates of returns 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 according to the financial accounting 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 expected 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 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. The executive directors and Supervisory Board are responsible for the declaration pursuant to Section 161 AktG ["Aktiengesetz": German Stock Corporation Act] on the German Corporate Governance Code which is part of the Corporate Governance Statement. In all other respects, the executive directors are responsible for the other information. The other information comprises the parts of the annual report mentioned in the appendix to the 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

Report on the Assurance in Accordance with Section 317 (3b) HGB on the Electronic Reproduction of the Annual Financial Statements and the Management Report prepared for Publication Purposes

Opinion

We have performed assurance work in accordance with Section 317 (3b) HGB to obtain reasonable assurance about whether the reproduction of the annual financial statements and the management report (hereinafter the “ESEF documents”) contained in the attached electronic file Zalando_SE_JA+LB_ESEF_2020_12_31.zip and prepared for publication purposes complies in all material respects with the requirements of Section 328 (1) HGB for the electronic reporting format (“ESEF format”). In accordance with German legal requirements, this assurance only extends to the conversion of the information contained in the annual financial statements and the management report into the ESEF format and therefore relates neither to the information contained in this reproduction nor to any other information contained in the abovementioned electronic file.

In our opinion, the reproduction of the annual financial statements and the management report contained in the abovementioned attached electronic file and prepared for publication purposes complies in all material respects with the requirements of Section 328 (1) HGB for the electronic reporting format. We do not express any opinion on the information contained in this reproduction nor on any other information contained in the abovementioned file beyond this reasonable assurance opinion and our audit opinion on the accompanying annual financial statements and the accompanying management report for the fiscal year from January 1 to December 31, 2020 contained in the “Report on the audit of the annual financial statements and of the management report” above.

Basis for the Opinion

We conducted our assurance work on the reproduction of the annual financial statements and the management report contained in the abovementioned attached electronic file in accordance with Section 317 (3b) HGB and Exposure Draft of IDW Assurance Standard: Assurance in Accordance with Section 317 (3b) HGB on the Electronic Reproduction of Financial Statements and Management Reports Prepared for Publication Purposes (ED IDW AsS 410) and the International Standard on Assurance Engagements 3000 (Revised). Our responsibilities under that standard are further described in the “Auditor’s responsibilities for the assurance work on the ESEF documents” section. Our audit firm applied the standards for the quality assurance system set forth in IDW Quality Control Standard: “Anforderungen an die Qualitätssicherung in der Wirtschaftsprüferpraxis” [Requirements for Quality Control in the Practice of Public Auditors] (IDW QS 1).

Responsibilities of the Executive Directors and the Supervisory Board for the ESEF documents

The executive directors of the company are responsible for the preparation of the ESEF documents including the electronic reproduction of the annual financial statements and the management report in accordance with Section 328 (1) Sentence 4 No. 1 HGB.

In addition, the executive directors of the company are responsible for such internal control as they have considered necessary to enable the preparation of ESEF documents that are free from material non-compliance with the requirements of Section 328 (1) HGB for the electronic reporting format, whether due to fraud or error.

The executive directors of the company are also responsible for the submission of the ESEF documents together with the auditor's report and the attached audited annual financial statements and the audited management report as well as other documents to be published to the operator of the Bundesanzeiger [German Federal Gazette].

The Supervisory Board is responsible for overseeing the preparation of the ESEF documents as part of the financial reporting process.

Our objective is to obtain reasonable assurance about whether the ESEF documents are free from material non-compliance with the requirements of Section 328 (1) HGB, whether due to fraud or error. We exercise professional judgment and maintain professional skepticism throughout the engagement. We also:

- Identify and assess the risks of material non-compliance with the requirements of Section 328 (1) HGB, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain assurance evidence that is sufficient and appropriate to provide a basis for our assurance opinion.
- Obtain an understanding of internal control relevant to the assurance on the ESEF documents in order to design assurance procedures that are appropriate in the circumstances, but not for the purpose of expressing an assurance opinion on the effectiveness of these controls.
- Evaluate the technical validity of the ESEF documents, i.e., whether the electronic file containing the ESEF documents meets the requirements of Delegated Regulation (EU) 2019/815, in the version valid as of the reporting date, on the technical specification for this electronic file.
- Evaluate whether the ESEF documents enable an XHTML reproduction with content equivalent to the audited annual financial statements and to the audited management report.

Further Information Pursuant to Article 10 of the EU Audit Regulation

We were elected as auditor by the annual general meeting on June 23, 2020. We were engaged by the Supervisory Board on August 4, 2020. We have been the auditor of ZALANDO SE without interruption since fiscal year 2010. ZALANDO SE has been a corporation geared to the capital market pursuant to Section 264d HGB since 2014.

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

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

— review of the company's voluntarily prepared half-year financial statements as at June 30, 2020
— 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
— translation services

German Public Auditor Responsible for the Engagement

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

Appendix to the auditor's Report:

1) Parts of the Management Report whose content is unaudited

We have not audited the content of the following parts of the management report:

— Corporate governance statement

Furthermore, we have not audited the content of the following disclosures that are not typical for management reports. Disclosures not typical for management reports include disclosures that are not required pursuant to Sections 289, 289a HGB or Sections 289b to 289f HGB:

— The charts "GMV by Quarter (2019-2020)" and "Revenue by Quarter (2017-2020)" in the "Development of Revenue and GMV" section of the chapter "Economic Situation".

2) Further other Information

"Other information" comprises the following part of the Annual Report, which we were provided with prior to issuing this auditor's report:

— Separate non-financial report

"Other information" also comprises the prescribed parts of the Annual Report, which were provided to us prior to issuing this auditor's report, specifically the following sections:

— Responsibility statement by the Management Board
— Report of the Supervisory Board
— Report on Equality and Equal Pay for Zalando SE
— Glossary

but not the annual financial statements, not the disclosures in the management report included in the audit of content and not our auditor's report.

Berlin, March 15, 2021

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 returns. The number of customers who have completely canceled their orders are excluded.

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.

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

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

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. Due to a change in consent management following the GDPR introduction, some of the data is estimated using a statistical method.

Net Working Capital

We calculate net working capital as the sum of inventories and trade receivables less trade payables and similar liabilities.

Number of Orders

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

Private Labels

For us, private labels (zLabels) are Zalando‘s own labels.

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. Due to a change in consent management following the GDPR introduction, some of the data is estimated using a statistical method.

8.2 Imprint

Editorial Team and Contact

ZALANDO SE
Valeska-Gert-Straße 5
10243 Berlin
corporate.zalando.com
press@zalando.com

Investor Relations

Patrick Kofler / Head of Investor Relations
investor.relations@zalando.de

Realization and Production

With the collaboration of Amana Consulting GmbH, Essen and MPM Corporate Communication Solutions Media Process Management GmbH, Mainz

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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 zalando