

Annual Report 2020



Zalando at a Glance

Key Figures

| | Jan 1 – Dec 31, 2020 | Jan 1 – Dec 31, 2019 | Changes |
|--|----------------------|----------------------|---------|
| Group key performance indicators | | | |
| Site visits* (in millions) | 5,393.6 | 4,178.1 | 29.1% |
| Mobile visit share* (as a %) | 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% |
| Results of operations | | | |
| 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 (as % of revenue) | 4.6 | 2.6 | 2.0pp |
| Adjusted EBIT (in EUR m) | 420.8 | 224.9 | 87.1% |
| Adjusted EBIT (as % of revenue) | 5.3 | 3.5 | 1.8pp |
| EBITDA (in EUR m) | 581.5 | 360.6 | 61.3% |
| EBITDA (as % of revenue) | 7.3 | 5.6 | 1.7pp |
| Adjusted EBITDA (in EUR m) | 635.3 | 419.7 | 51.4% |
| Adjusted EBITDA (as % of revenue) | 8.0 | 6.5 | 1.5pp |
| Financial position | | | |
| Net working capital (in EUR m) | -87.4 | -147.7 | 40.8% |
| Equity ratio (as % of total assets) | 33.1 | 38.9 | -5.7pp |
| Cash flow from operating activities (in EUR m) | 527.4 | 327.2 | 61.2% |
| Cash flow from investing activities (in EUR m) | -217.8 | -290.3 | 25.0% |
| Free cash flow (in EUR m) | 284.5 | 41.6 | 584.5% |
| Capex (in EUR m) | -250.0 | -306.5 | 18.4% |
| Cash and cash equivalents (in EUR m) | 2,644.0 | 976.5 | 170.8% |
| Other | | | |
| Employees (as of the reporting date) | 14,194 | 13,763 | 3.1% |
| Basic earnings per share (in EUR) | 0.90 | 0.40 | 123.5% |
| Diluted earnings per share (in EUR) | 0.88 | 0.39 | 126.2% |

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

More than **38 m**

active customers

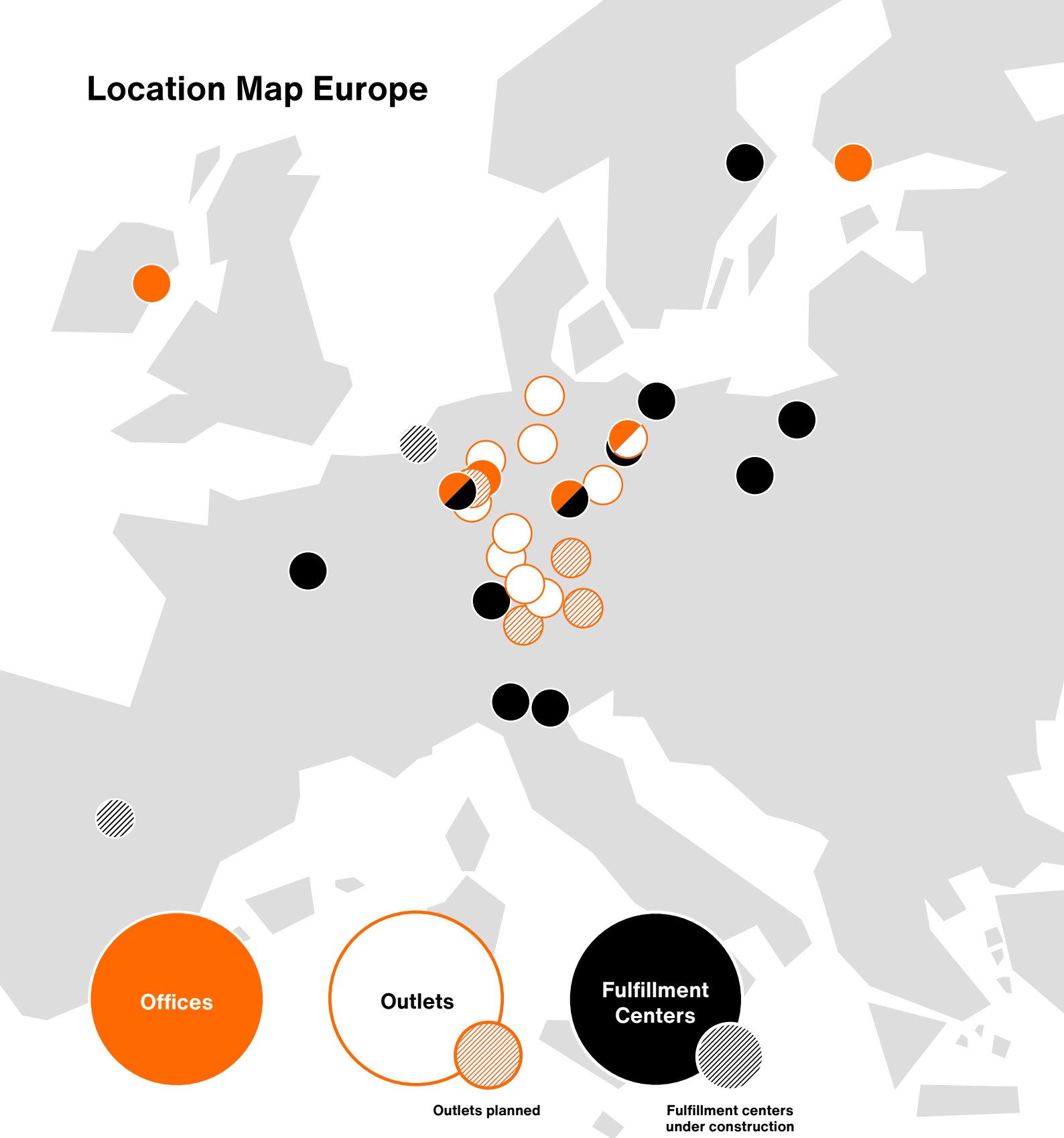
More than **80,000**

articles feature a sustainability flag

More than **2,400**

offline stores connected to the platform

Location Map Europe



Zalando. The Starting Point for Fashion.

Zalando is Europe's leading online platform for fashion and lifestyle. Founded in Berlin in 2008, we bring head-to-toe fashion to more than 38 million active customers in 17 markets, offering clothing, footwear, accessories, and beauty. The assortment of international brands ranges from world famous names to local labels. Our platform is a one-stop fashion destination

for inspiration, innovation, and interaction. As Europe's most fashionable tech company, we work hard to find digital solutions for every aspect of the fashion journey: for our customers, partners and every valuable player in the Zalando story. Our goal is to become The Starting Point for Fashion and a sustainable platform with a net-positive impact for people and the planet.

Highlights 2020

Making it work (from home)

Undeterred by the lockdown in March, Zalando launched its first 100% remotely produced campaign, "Together I am Strong", aiming to inspire customers to stay active at home.



ZIGN goes more sustainable

Zalando's private label, ZIGN, launched a spring/summer collection fully dedicated to sustainability. The collection features only items made with more sustainable materials.

On target

Zalando became the first platform worldwide to set Science-Based Targets to reduce carbon emissions in line with the 2015 Paris Agreement.



Supporting the industry

Zalando continued to support brands and retailers during the coronavirus crisis with a further 1,000 brands selling their products through our Partner Program in 2020. Zalando's offline to online integration solution, Connected Retail, also saw over 2,400 stores connected by the end of the year.



Customers experience pre-owned

Zalando closed the gap between new and pre-owned clothes by launching its new category, Pre-owned, where customers can buy and sell pre-loved items all with Zalando's best-in-class convenience proposition.



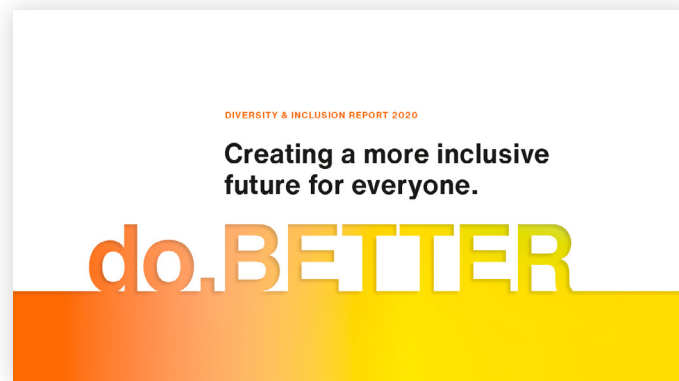
Premium at Zalando

In 2020, Zalando further invested into its luxury customer experience and added new high-end brands such as Roksanda and Marchesa. Customers can now choose from over 260 luxury brands in the renamed category **Designer** on the platform.



We will hug again

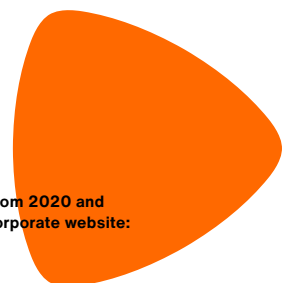
In a challenging year of uncertainty and separation, human connection felt more important than ever. The holiday campaign, "We Will Hug Again" sought to convey a feeling of optimism and hope for the future, when people across Europe and the world will be able to hug their loved ones again.



Diversity & Inclusion report launched

One year after announcing its new diversity targets for top leadership (a representation of at least 40-60 percent for men and women on the top six leadership levels by the end of 2023), Zalando published its first Diversity & Inclusion report.

Find out more about our highlights from 2020 and lots more news and stories on our corporate website: corporate.zalando.com



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1.1 Foreword



The Management Board from left to right:
David Schröder, Jim Freeman, Rubin Ritter, Robert Gentz, David Schneider

Dear Shareholders,

A year ago none of us could have imagined the challenges the world would face in the coming months of 2020 and the global impact the Covid-19 pandemic would have on economic activity around the globe. The first wave of the coronavirus pandemic hit the world with full force and mostly unprepared. We as a company were not immune from the initial shock.

During that first period of uncertainty in March we took decisive action to focus Zalando on protecting the health and safety of all our employees, safeguarding our business and ensuring financial flexibility. Looking beyond our own horizon at what was happening around us, we were determined to be part of the solution for the industry in dealing with the pandemic.

As a result of nationwide lockdowns, consumers turned online, requiring brands and retailers to expand their online business. From one day to the next, a strong need for digitization across the entire industry aligned with our efforts to accelerate our platform transition and put us in a strong position to serve our customers and support our partners at a time when they needed it most. The boundaries between online and offline offerings started to blur and with Connected

Retail we expanded our platform to the offline world, allowing more than 2,400 stores in 2020 to sell directly to Zalando customers with waived commissions.

The disruptions that Covid-19 brought to our daily lives has caused many of us to also pay closer attention to the challenges facing people and the planet. Already in 2019 we launched our sustainability strategy do.MORE and set ourselves ambitious goals to become a sustainable fashion platform with a net-positive impact for people and the planet. In our first year we made significant progress and are engaging our partners to do the same. We view sustainability as an investment into the future viability of our business and our appeal to future generations of customers. We report in greater detail on our progress and initiatives in our first Zalando Sustainability Progress Report which is published alongside this Annual Report.

Our company achievements in 2020 are the result of the dedication and commitment of our employees, who have closed ranks in these uncertain times and adapted quickly to a new working environment. Without our frontline fulfillment center and studio staff coming into work day in, day out we would not be where we are today.

2020 was a year like no other, but it also confirmed the opportunity lying ahead of us. The pandemic has accelerated change in the fashion industry that has long been in progress and our platform strategy allows us to play a key role in the industry as offline and online segments are growing further together.

Driving long-term growth will remain our main priority and we have the necessary infrastructure and capabilities in place to support our growth ambitions. And we look forward to doing this in concert with our employees, partners, brands, communities and shareholders.

Berlin, March 15, 2021

Robert Gentz

David Schneider

Rubin Ritter

Jim Freeman

David Schröder

1.2 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.

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

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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

1.3 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.¹ 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.

1.3.1 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.

¹⁾ 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.

1.3.2 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 partners² 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

²) 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.

1.3.3 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 website³. 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.

3) <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 | Supervision | Innovation | Sustainability | Independence |
| 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. Povlsen is also member of Boards of Directors at various foreign group entities of the Bestseller group as well as foreign entities with a family connection

Current and Past 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) | <p>Spotify Technology S.A., Luxembourg (member of the Board of Directors)</p> <p>Verdere S.à. r.l., Luxembourg (member of the Board of Managers)</p> <p>Camshaft S.à. r.l., Luxembourg (member of the Board of Managers)</p> <p>Ameriana S.à r.l., Luxembourg (member of the Board of Managers from August 2020)</p> <p>GoEuro Corp. (trading under the brand Omio), Delaware USA (member of the Board of Directors until September 2020)</p> <p>Björkö Gård AB, Sweden (member of the Board of Directors until October 2020)</p> <p>Ameriana AB, Sweden (member of the Board of Directors until December 2020)</p> <p>Three Daughters S.à r.l., Luxembourg (member of the Board of Managers until December 2020)</p> <p>CS Stiftelse för Nästa Generation, Sweden (member of the Board of Directors until November 2020)</p> <p>Camsten AB, Sweden (member of the Board of Directors until December 2020)</p> <p>Camshaft Skog AB., Sweden (member of the Board of Directors until December 2020)</p> <p>Äggsjöns Vildmark AB, Sweden (member of the Board of Directors until December 2020)</p> <p>House of Kraft AB, Sweden (member of the Board of Managers until December 2020)</p> |

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

1.3.4 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.⁴

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 fourth 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.

4) <https://corporate.zalando.com/en/diversity-inclusion>

1.3.5 Takeover Law Disclosures Pursuant to Sections 289a (1), 315a (1) HGB and Explanatory Report⁵

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.

⁵) 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 fulfill 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.

1.3.6 Remuneration Report⁶

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 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)⁷ 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,

⁶) This remuneration report is part of the combined management report and also forms a component of the corporate governance statement.

⁷) 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 Aktionärsrechterrichtlinie, ARUG II (act on the implementation of the second shareholder rights directive, ARUG II) of December 12, 2019).

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.

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%⁸ 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.

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

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

Performance Criterion

| CAGR | Exercisable options (as % of the total number of vested options) |
|---------------------|--|
| CAGR ≥ 15.0% | 100% |
| < 15.0% and ≥ 14.5% | 90% |
| < 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 | | | 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 | 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 | | | 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 | 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 | | David Schneider | | Rubin Ritter | |
|----------------|----------------------|----------------------|----------------------|----------------------|----------------------|----------------------|
| | Jan 1 – Dec 31, 2020 | Jan 1 – Dec 31, 2019 | Jan 1 – Dec 31, 2020 | Jan 1 – Dec 31, 2019 | Jan 1 – Dec 31, 2020 | 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%⁹ until 2023.

9) 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 \geq 15.0% | 100% |
| < 15.0% and \geq 14.0% | 90% |
| < 14.0% and \geq 13.0% | 80% |
| < 13.0% and \geq 12.0% | 70% |
| < 12.0% and \geq 11.0% | 60% |
| < 11.0% | 50% |

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

Settlement Value and Cap

Jim Freeman is entitled to the amount by which the share price as per the exercise date exceeds the exercise price of EUR 1.00. This amount is capped at EUR 99.00 per option. 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%¹⁰ until 2023.

¹⁰⁾ CAGR (2018-2023); Source: Euromonitor, fixed exchange 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 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.

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

| 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 | 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

| IN EUR | David Schröder | |
|----------------|----------------------|----------------------|
| | 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 |

1.4 The Zalando Share – 2020 in Review

- Zalando share reached new record-high
- Raised additional capital in the form of two tranches of Convertible Bonds
- Further increased free-float due to partial divestment of Kinnevik AB

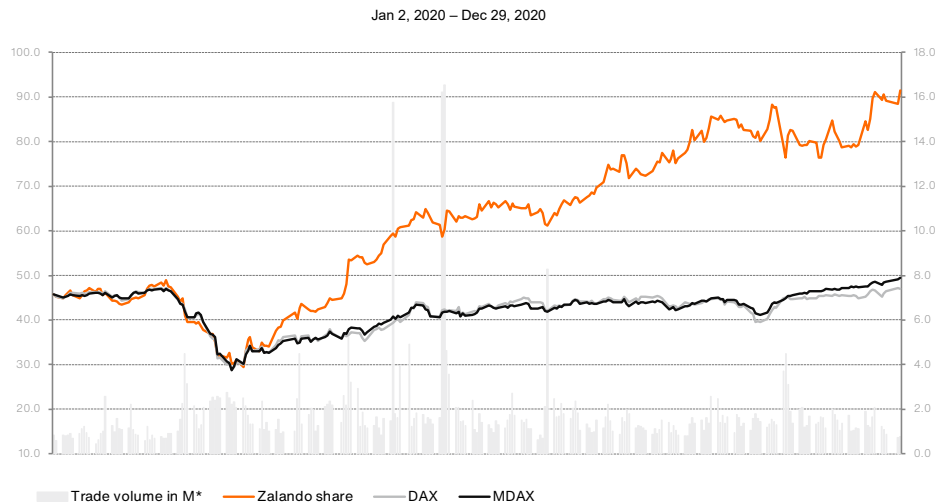
1.4.1 Capital Markets and Share Price Development

2020 has been an extraordinary year characterized by a high level of volatility for the global capital markets. Following a strong start to the year, with the German benchmark equity index DAX reaching a new all-time at 13.627 in February 2020, the rapid spread of COVID-19 around the globe and the following government imposed lockdowns and looming economic recession dampened investor sentiment, causing a global sell-off in equity markets. Consequently, the global equity indices started to decline. After overcoming the first shock and adapting to new reality, markets started to recover from their annual lows. Sector-wise, so-called “Stay-at-home” stocks (e.g., food delivery services, online retailers, remote-access and video conferencing platforms) were the key beneficiaries from the returning appetite from investors for riskier asset classes, while cyclical sectors (e.g., hospitality and leisure, airlines and travel) lagged those developments.

The Zalando share could not escape this market developments at the beginning of the COVID-19 pandemic and declined in-line with the overall market, reaching its low on March 23, 2020 at 27.33 EUR. As the positive sentiment returned, especially for the “Stay-at-home” sectors, the Zalando share rallied off from its lows and carried on this momentum throughout the next few months. Driven by our strong operational and financial performance, which came along with three guidance upgrades since the start of the second quarter 2020, the Zalando share ended the year at an all-time high at 91.06 EUR on December 30, 2020.

In light of that favorable capital markets backdrop for digital businesses, in general, and Zalando, in particular, Zalando was able to raise additional capital. On July 30, 2020, we successfully placed for the first time two tranches of unsubordinated, unsecured convertible bonds with an aggregate principal amount of EUR 500 million each and maturity on or around August 6, 2025 and on or around August 6, 2027. The transaction resulted in gross proceeds of 1,004.4m EUR, which will be used to support the company's continued growth strategy, to pursue strategic opportunities that may arise and for general corporate purposes.

Development of the Zalando Share, DAX and MDAX



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

Share Performance 2020

| | |
|---|------------|
| Opening price on Jan 2, 2020 | EUR 44.97 |
| High 2020 (December 29) | EUR 91.95 |
| Low 2020 (March 23) | EUR 27.33 |
| Closing price on Dec 30, 2020 | EUR 91.06 |
| Performance 2020 | 102.5% |
| Average daily trading volume 2020 (shares)* | 2.4m |
| Average daily trading volume 2020 (in EUR)* | EUR 143.3m |

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

The Zalando Share

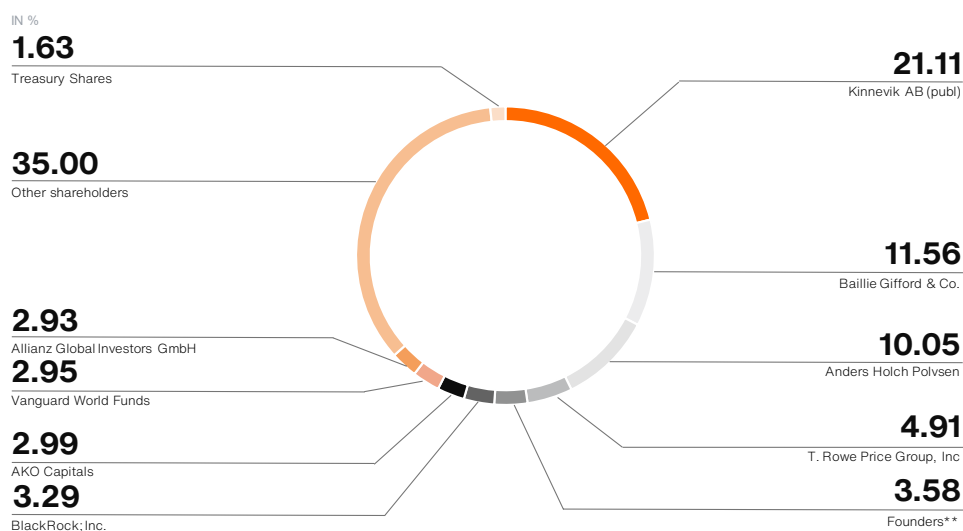
| | |
|---|--|
| Type of shares | Ordinary bearer shares with no par value ("Stückaktien") |
| Share capital | EUR 255,253,307 |
| Total number of shares outstanding (Dec 31, 2020) | 255,253,307 |
| ISIN | DE000ZAL1111 |
| WKN | ZAL111 |
| Bloomberg | ZAL GR |
| Thomson Reuters | ZALG.F |

1.4.2 Shareholder Structure

During 2020, the shareholder structure underwent significant changes. The most important change was the partial divestment by our single largest shareholder Kinnevik AB from 25.83% to 21.27%. On June 15, 2020, Kinnevik AB announced the placement of 11.25m shares (equivalent to 4.4% of the issued share capital of ZALANDO SE) – following its prior partial sale in September 2019 – in ZALANDO SE to institutional investors through an accelerated bookbuilding process. Kinnevik's divestment was driven by its desire to increasingly diversify its portfolio. Following those changes in the shareholder structure, the Zalando shares in free-float increased to 67%.

After the reporting date (in February 2021), Kinnevik AB furthermore announced its intention to distribute the entire remaining stake in Zalando to its investors. This will make Kinnevik investors to direct shareholders in Zalando. We see this as an opportunity to gain renewed support for our vision and strategy going forward. The planned distribution still has to be confirmed by Kinnevik shareholders at the annual general meeting of Kinnevik AB held on April 29, 2021 in Stockholm and will further increase the free-float in Zalando shares.

Shareholder Structure in Percent as of Dec 31, 2020*



*) Voting rights held directly or by a subsidiary. The overview reflects the notifications pursuant to Section 21 WpHG (BaFin notifications) and Section 26a WpHG (change in total voting rights) received by ZALANDO SE as of December 31, 2020.

**) Aggregate shareholding of the founders.

1.4.3 Research Coverage

By the end of 2020 the Zalando share was covered by 31 research analysts from Germany and abroad (year-end 2019: 32). This ensures a continued high capital market awareness of the Zalando share.

Institutions That Cover Zalando

| | | |
|-------------------------------|------------------------------|------------------------|
| Arete | DZ BANK AG | Pareto Securities |
| Alliance Bernstein | Erste Securities Polska S.A. | Quirin Bank |
| Baader Bank | Exane BNP Paribas | RBC Capital Markets |
| Bank of America Merrill Lynch | Goldman Sachs | Redburn |
| Barclays | Handelsbanken | Santander |
| Berenberg | Hauck & Aufhäuser | Societe Generale |
| Bryan, Garnier & CO | J. P. Morgan Cazenove | UBS |
| Caixa Bank | Kepler Cheuvreux | Warburg |
| Citi | Liberum | Wells Fargo Securities |
| Commerzbank | Mainfirst | |
| Credit Suisse | Morgan Stanley | |
| Deutsche Bank | Nordea | |

1.4.4 Stock Indices

The Zalando share belongs to various key indices (selection), raising the visibility and trading volume in the Zalando share. With a weighting of 5.4% (2019: 2.7%), Zalando was ranked 25 in the German index DAX / M-DAX ranking at the end of 2020. Additional visibility is granted by the listing in the Dax 50 ESG as well as the FTSE4Good Index Series, which has been re-confirmed following the December 2020 index review, after being named as index-member for the first time in 2019.

Selection of Stock Indices

| Index | Region |
|------------------------|---------|
| MDAX | Germany |
| DAX 50 ESG | Germany |
| STOXX Europe 600 | Europe |
| STOXX Europe Mid 200 | Europe |
| FTSE4GOOD Index Series | Global |

1.4.5 ESG Reporting

In order to provide the capital markets with broader information, ensuring comparability and transparency on our ESG performance, Zalando participated in several ESG ratings. We highly appreciate the feedback and positive recognition from ESG rating agencies.

Zalando has participated in CDP's Climate Change questionnaire since 2018. CDP is an international rating agency and provider of non-financial information for investors with a focus on climate-related disclosure of governance, strategy, risk management as well as metrics and targets. It represents more than 525 investors with over 96 trillion USD in assets and more than 125 major purchasing organizations with 3.5 trillion USD in purchasing power. The release of our new sustainability strategy in connection with the setting of Science-Based Targets in 2020 addresses some of our improvement opportunities that we highlighted in our 2020 CDP reporting. Another essential driver for reaching a higher rating is our alignment of climate risk disclosure to the recommendations of the Task Force on climate-related financial disclosures (TCFD). In 2020 Zalando achieved the A-level score, securing a place among the 270 high-performing companies worldwide on CDP's 'A List' for tackling climate change. In addition, we have been included to the 2020 CDP Supplier Engagement Leaderboard.

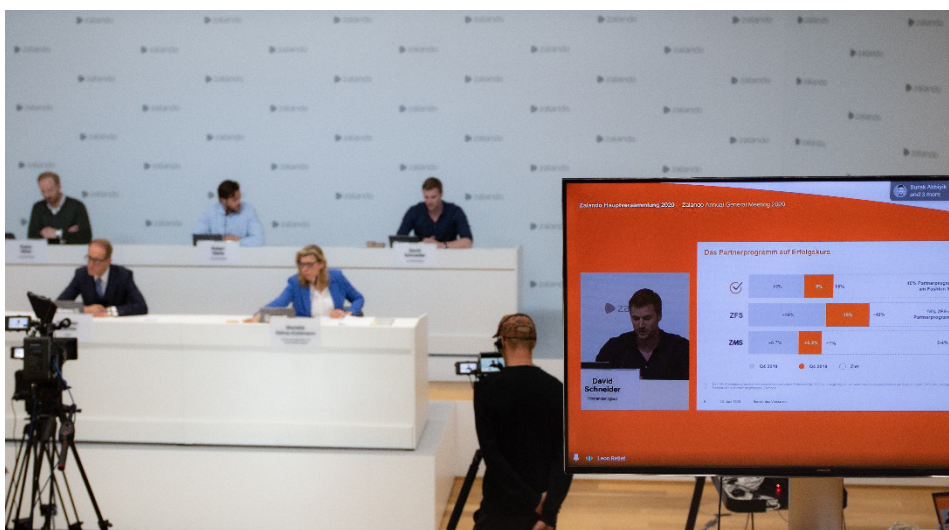
Zalando continued to be included in the MSCI ESG Rating, Sustainalytics and ISS ESG. After a detailed feedback process with ISS ESG, we could significantly improve our rating score, reaching a B- and entering into the Prime Status. After our feedback process with Sustainalytics, our score was raised to 79, which resulted in entering the leader level in the category "Retail", reaching the relative position 2 in the same category. Additionally, we are now Best-in-class in the Sustainalytics Risk Ranking in the category "Online and Direct".

Furthermore, in 2020 we participated for the first time in the Equileap Gender Equality assessment and the Bloomberg Gender-Equality Index Reporting.

To provide the capital markets with more detailed information on our ESG performance, this year we published a separate and extended Sustainability Progress Report that is referenced to GRI standard. Additional information with regards to non-financial topics can also be found in our first [Diversity & Inclusion report](#) that was published in November 2020.

1.4.6 Annual General Meeting

Zalando's annual general meeting was held virtually without the physical presence of shareholders or their representatives on June 23, 2020 at the Zalando Headquarters in Berlin. A total of 88.2% of the voting share capital was represented at this main shareholders event. The required majority of shareholders approved all of the resolutions proposed by the company's Management and Supervisory Board. Resolutions included the resolution on the creation of a new authorized capital.



From left to right: **Rubin Ritter**, member of the Management Board, **Robert Gentz**, Co-founder and member of the Management Board, **David Schneider**, Co-founder and member of the Management Board, **Christian Steinke** (Notary) and **Mariella Röhm-Kottmann**, Member of the Supervisory Board during the annual general meeting 2020.

1.4.7 Close Dialogue with the Capital Markets

Zalando strives to maintain and strengthen the trust of all capital market participants through close, regular and open dialogue. We do so by engaging with institutional investors in numerous one-on-one meetings, calls, roadshows and conferences around the globe. Most of these events in 2020 have taken place in a virtual environment.

Throughout 2020, our Management Board, our Vice President Business Finance and the Investor Relations Team expanded their contacts and deepened their relationships with investors at 20 national and international conferences and with 50 mostly virtual roadshow days in major financial cities in Europe, North America, Australia and Asia. In addition, at the beginning of 2020 we roadshowed with the Chairperson of the Supervisory Board on Governance related topics in major financial cities across Europe. Furthermore, Zalando hosted a well attended virtual Sustainability Day in early October 2020, giving our investors, sell-side analysts and the press an update on our sustainability performance. The event was focused on the milestones the company has reached with regard to its [sustainability strategy do.MORE](#).

Combined Management Report

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2.1 Background to the Group

2.1.1 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.

2.1.2 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).

2.1.3 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, mutually-beneficial 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 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.

2.1.4 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.

2.1.5 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 visits¹¹:** 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 share¹²:** 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.
- **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.

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

12) As footnote above

- **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.

2.1.6 Research and Development

Zalando develops key software components of its platform internally. The developments relate to a structured, labor-intensive phase of programming new functionalities as well as enhancing the existing system landscape by significant system functionalities along the entire value and process chain. This ensures that the software is aligned with the operating processes and systems. 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.

2.2 Report on Economic Position

2.2.1 Macroeconomic and Sector-Specific Environment

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%¹³ to around EUR 350bn¹⁴.

www.euromonitor.com

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 85bn¹⁵ 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 61bn¹⁶. Online fashion sales, on the other hand, saw an increase to a trading volume of around EUR 20bn¹⁷, with a year-over-year increase of 5.5%, significantly lower however than for Europe overall.

2.2.2 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 visits¹⁸ 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

13) Euromonitor, Europe excl. Russia

14) Euromonitor, Europe excl. Russia

15) Euromonitor, Europe excl. Russia

16) Euromonitor, Germany

17) Euromonitor, Germany

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

vs. 144.9m in 2019) and in the average number of orders per customer per year (4.8 in 2020 vs. 4.7 in 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.

2.2.3 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 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.

Further Information
Consolidated Statement of
Comprehensive Income

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*

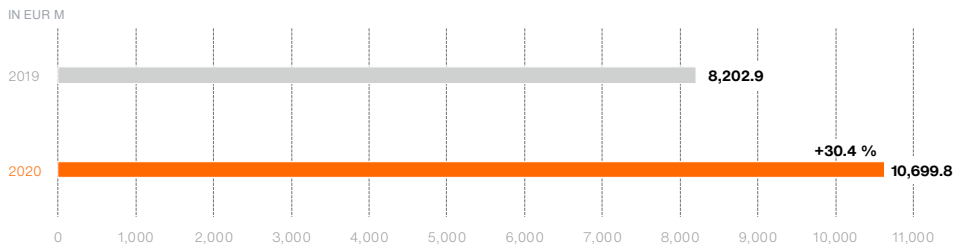
| | Jan 1 – Dec 31, 2020 | Jan 1 – Dec 31, 2019 | Change |
|---|-------------------------|-------------------------|--------|
| Site visits** (in millions) | 5,393.6 | 4,178.1 | 29.1% |
| Mobile visit share** (as % of site visits) | 86.3 | 83.7 | 2.6pp |
| Active customers (in millions) | 38.7 | 31.0 | 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.

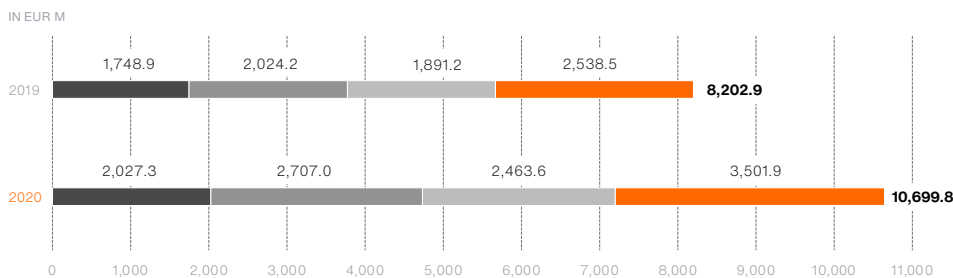
**) Due to a change in consent management following the GDPR introduction, some of the data is estimated using a statistical method.

Development of Revenue and GMV¹⁹

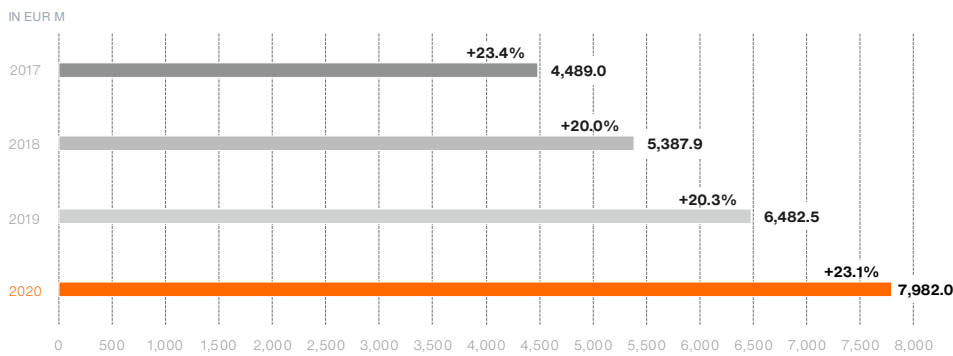
Annual GMV Growth (2019 – 2020)



GMV by Quarter (2019 – 2020)

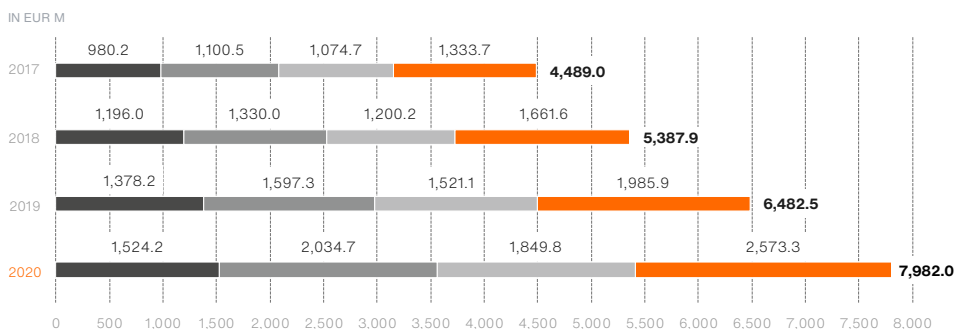


Revenue by Year (2017 – 2020)



19) 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 its 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 develop-

ments 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 | Reconciliation | 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.

2.2.4 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.

2.3 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.

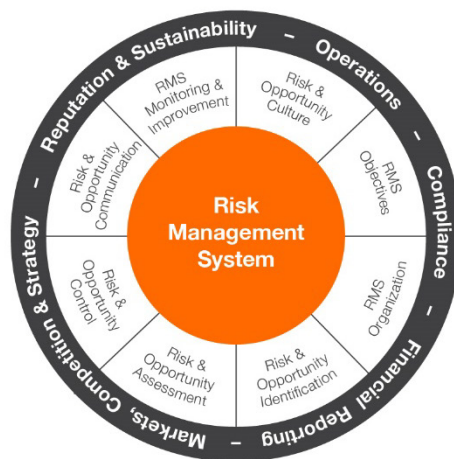
As an international company, Zalando has exposure to macroeconomic, sector-specific, financial, and company-specific risks and opportunities. This risk and opportunity report presents the risks and opportunities considered material for Zalando and provides an overview of the implemented risk and opportunity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

2.3.1 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

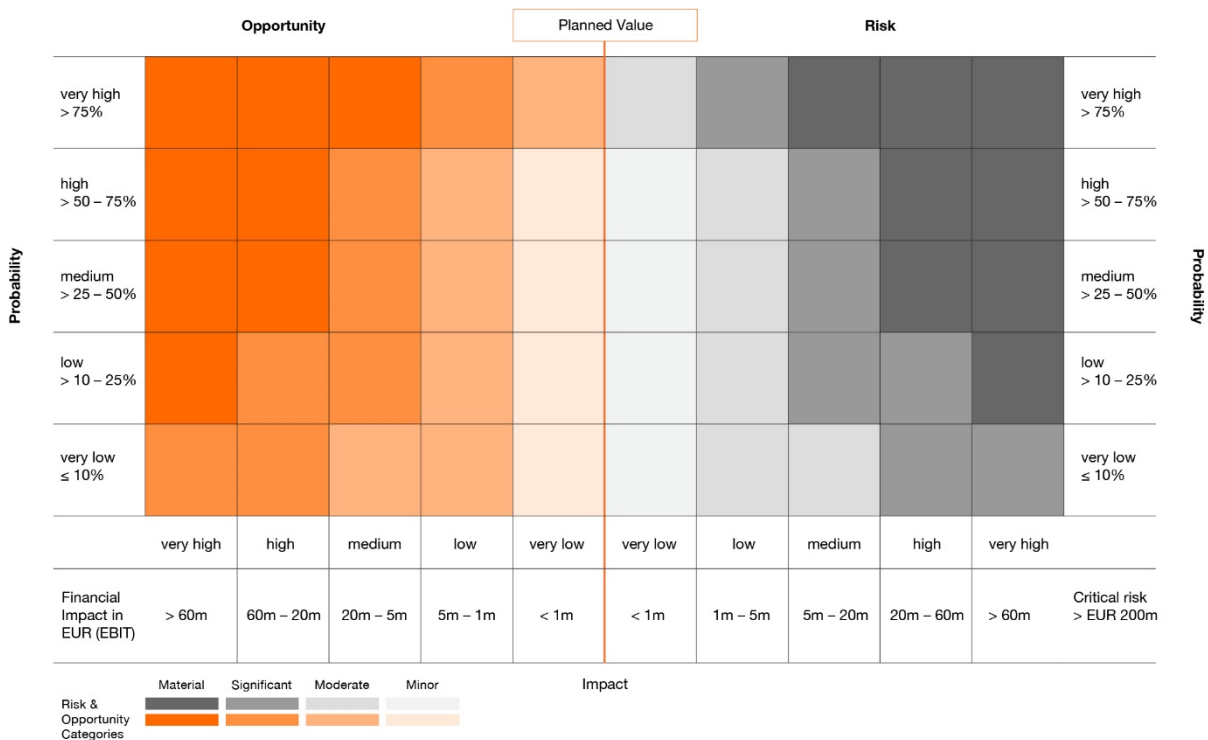
Using multiple instruments, such as workshops and self-assessments, the identification and assessment of risks and opportunities is carried out by both, the risk and opportunity owners during day-to-day operations and the Risk Management Team on a half-yearly basis. Moreover, Zalando has implemented 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.

2.3.2 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 | | 2019 | |
|--|----------------------|-----------|-------------|-----------|-------------|
| | | Impact | Probability | Impact | 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.

2.3.3 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

| Single Opportunity | Assessment | 2020 | | 2019 | |
|-----------------------|----------------|--------|-------------|--------|-------------|
| | | 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 sus-

tainable 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-commerce²⁰. 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.

²⁰ Euromonitor, Europe excl. Russia, and accessories (no forecast data on accessories available)

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 20%²¹ 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.

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

2.4 Outlook

- Continued positive outlook for online fashion retail in Europe and Germany.
- Online fashion sales are expected to grow by 14.2%²² in Europe and 13.4%²³ 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.

2.4.1 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 380bn²⁴. 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%²⁵ 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.

2.4.2 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.

²² Euromonitor, Europe excl. Russia, and accessories (no forecast data on accessories available)

²³ Euromonitor, Germany excl. accessories (no forecast data on accessories available)

²⁴ Euromonitor, Europe excl. Russia

²⁵ Euromonitor, Germany

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 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).

2.4.3 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.

2.5 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.

2.5.1 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.

2.5.2 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 re-

maintaining 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.

2.5.3 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.

2.5.4 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

2.6 Report on Equality and Equal Pay for ZALANDO SE²⁶

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

2.6.1 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.

²⁶⁾ The report on equality and equal pay for ZALANDO SE is not part of the audited combined management report.

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 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.

2.6.2 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 |

Consolidated Financial Statements

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3.1 Consolidated Statement of Comprehensive Income

Consolidated Income Statement

| IN EUR M | Notes | Jan 1 – Dec 31, 2020 | Jan 1 – Dec 31, 2019 |
|---|-------------|-------------------------|-------------------------|
| Revenue | (1.) | 7,982.0 | 6,482.5 |
| Cost of sales | (2.) | -4,587.8 | -3,724.3 |
| Gross profit | | 3,394.2 | 2,758.2 |
| Fulfillment costs | (3.) | -2,055.1 | -1,773.0 |
| Marketing costs | (3.) | -660.9 | -522.2 |
| Administrative expenses | (4.) | -319.2 | -298.9 |
| Other operating income | (5.) | 26.7 | 18.2 |
| Other operating expenses | (6.) | -18.7 | -16.6 |
| Earnings before interest and taxes (EBIT) | | 367.0 | 165.8 |
| Interest and similar income | | 16.1 | 10.4 |
| Interest and similar expenses | | -58.1 | -29.4 |
| Result of investments accounted for using the equity method | | 0.1 | -3.9 |
| Other financial result | | -6.7 | 2.0 |
| Financial result | (7.) | -48.6 | -20.9 |
| Earnings before taxes (EBT) | | 318.5 | 144.9 |
| Income taxes | (8.) | -92.4 | -45.2 |
| Net income for the period | | 226.1 | 99.7 |
| thereof net income attributable to the shareholders of ZALANDO SE | | 226.1 | 99.7 |
| thereof net income attributable to non-controlling interests | | 0.0 | 0.0 |
| Net income for the period as a percentage of revenue | | 2.8% | 1.5% |
| Basic earnings per share (in EUR) | (9.) | 0.90 | 0.40 |
| Diluted earnings per share (in EUR) | (9.) | 0.88 | 0.39 |

Consolidated Statement of Comprehensive Income

| IN EUR M | Jan 1 – Dec 31, 2020 | Jan 1 – Dec 31, 2019 |
|--|-------------------------|-------------------------|
| Net income for the period | 226.1 | 99.7 |
| To be recycled to profit or loss in subsequent periods | | |
| Effective portion of gains / losses from cash flow hedges, net of tax | 8.5 | -10.2 |
| Exchange differences on translation of foreign financial statements | -0.2 | -0.5 |
| Other comprehensive income | 8.3 | -10.7 |
| Total comprehensive income | 234.4 | 88.9 |
| thereof total comprehensive income attributable to the shareholders of ZALANDO SE | 234.4 | 88.9 |
| thereof total comprehensive income attributable to non-controlling interests | 0.0 | 0.0 |

3.2 Consolidated Statement of Financial Position

Consolidated Statement of Financial Position – Assets

| IN EUR M | Notes | Dec 31, 2020 | Dec 31, 2019 |
|---|-------------|----------------|----------------|
| Non-current assets | | | |
| Intangible assets | (11.) | 236.0 | 192.8 |
| Property, plant and equipment | (12.) | 810.1 | 708.4 |
| Right-of-use assets | (13.) | 479.8 | 525.6 |
| Financial assets | (14.) | 11.9 | 10.1 |
| Deferred tax assets | (8.), (27.) | 15.4 | 9.2 |
| Non-financial assets | (14.) | 5.1 | 7.3 |
| Investments accounted for using the equity method | (15.) | 1.7 | 1.6 |
| | | 1,560.0 | 1,455.1 |
| Current assets | | | |
| Inventories | (16.) | 1,361.2 | 1,098.3 |
| Trade and other receivables | (17.) | 602.5 | 462.4 |
| Other financial assets | (18.) | 32.0 | 42.8 |
| Other non-financial assets | (18.) | 295.1 | 262.2 |
| Cash and cash equivalents | (19.) | 2,644.0 | 976.5 |
| | | 4,934.8 | 2,842.2 |
| Assets held for sale | (12.) | 0.0 | 35.9 |
| Total assets | | 6,494.8 | 4,333.1 |

Consolidated Statement of Financial Position – Equity and Liabilities

| IN EUR M | Notes | Dec 31, 2020 | Dec 31, 2019 |
|--|-------------|----------------|----------------|
| Equity | | | |
| Issued capital | | 253.1 | 248.7 |
| Capital reserves | | 1,428.9 | 1,200.5 |
| Other reserves | | -7.3 | -15.6 |
| Retained earnings | | 476.6 | 250.4 |
| Equity of shareholders of ZALANDO SE | | 2,151.3 | 1,683.9 |
| Non-controlling interest | | -0.2 | -0.2 |
| | (20.) | 2,151.1 | 1,683.8 |
| Non-current liabilities | | | |
| Provisions | (22.) | 47.7 | 42.5 |
| Lease liabilities | (13.) | 443.0 | 481.4 |
| Borrowings | (25.) | 0.0 | 2.7 |
| Convertible bonds | (25.) | 873.7 | 0.0 |
| Other financial liabilities | | 15.6 | 4.2 |
| Other non-financial liabilities | | 5.1 | 1.1 |
| Deferred tax liabilities | (8.), (27.) | 19.1 | 10.7 |
| | | 1,404.2 | 542.6 |
| Current liabilities | | | |
| Provisions | (22.) | 0.5 | 3.4 |
| Lease liabilities | (13.) | 73.7 | 68.0 |
| Borrowings | (25.) | 377.7 | 2.8 |
| Trade payables and similar liabilities | (23.) | 2,050.5 | 1,708.3 |
| Prepayments received | (23.) | 47.1 | 35.0 |
| Income tax liabilities | | 9.6 | 7.6 |
| Other financial liabilities | (24.) | 145.6 | 128.2 |
| Other non-financial liabilities | (24.) | 234.8 | 143.4 |
| | | 2,939.5 | 2,096.7 |
| Liabilities associated with assets held for sale | (12.) | 0.0 | 10.0 |
| Total equity and liabilities | | 6,494.8 | 4,333.1 |

3.3 Consolidated Statement of Changes in Equity

Consolidated Statement of Changes in Equity 2020

| IN EUR M | Notes | Issued capital | Capital reserves |
|--|-------|----------------|------------------|
| As of Jan 1, 2020 | | 248.7 | 1,200.5 |
| Net income for the period | | 0.0 | 0.0 |
| Other comprehensive income | | 0.0 | 0.0 |
| Total comprehensive income | | 0.0 | 0.0 |
| Capital increase | (20.) | 2.4 | 24.7 |
| Convertible bonds | (20.) | 0.0 | 94.2 |
| Issue of treasury shares | (20.) | 2.0 | 26.0 |
| Share-based payments | (21.) | 0.0 | 50.3 |
| Deferred taxes from share-based payments | (27.) | 0.0 | 33.3 |
| As of Dec 31, 2020 | | 253.1 | 1,428.9 |

Consolidated Statement of Changes in Equity 2019

| IN EUR M | Notes | Issued capital | Capital reserves |
|---|-------|----------------|------------------|
| As of Jan 1, 2019 | | 247.9 | 1,155.6 |
| Net income for the period | | 0.0 | 0.0 |
| Other comprehensive income | | 0.0 | 0.0 |
| Total comprehensive income | | 0.0 | 0.0 |
| Capital increase | (20.) | 2.2 | 36.3 |
| Issue and repurchase of treasury shares | (20.) | -1.4 | -37.4 |
| Share-based payments | (21.) | 0.0 | 46.0 |
| As of Dec 31, 2019 | | 248.7 | 1,200.5 |

Consolidated Statement of Changes in Equity 2020

| Other reserves | | | | | | |
|------------------|----------------------|-------------------|----------------------------|--------------------------|--|---------|
| Cash flow hedges | Currency translation | Retained earnings | Shareholders of ZALANDO SE | Non-controlling interest | | Total |
| -15.2 | -0.4 | 250.4 | 1,683.9 | -0.2 | | 1,683.8 |
| 0.0 | 0.0 | 226.1 | 226.1 | 0.0 | | 226.1 |
| 8.5 | -0.2 | 0.0 | 8.3 | 0.0 | | 8.3 |
| 8.5 | -0.2 | 226.1 | 234.4 | 0.0 | | 234.4 |
| 0.0 | 0.0 | 0.0 | 27.1 | 0.0 | | 27.1 |
| 0.0 | 0.0 | 0.0 | 94.2 | 0.0 | | 94.2 |
| 0.0 | 0.0 | 0.0 | 28.0 | 0.0 | | 28.0 |
| 0.0 | 0.0 | 0.0 | 50.3 | 0.0 | | 50.3 |
| 0.0 | 0.0 | 0.0 | 33.3 | 0.0 | | 33.3 |
| -6.7 | -0.6 | 476.6 | 2,151.3 | -0.2 | | 2,151.1 |

Consolidated Statement of Changes in Equity 2019

| Other reserves | | | | | | |
|------------------|----------------------|-------------------|----------------------------|--------------------------|--|---------|
| Cash flow hedges | Currency translation | Retained earnings | Shareholders of ZALANDO SE | Non-controlling interest | | Total |
| -5.0 | 0.1 | 150.7 | 1,549.3 | -0.2 | | 1,549.1 |
| 0.0 | 0.0 | 99.7 | 99.7 | 0.0 | | 99.7 |
| -10.2 | -0.5 | 0.0 | -10.7 | 0.0 | | -10.7 |
| -10.2 | -0.5 | 99.7 | 88.9 | 0.0 | | 88.9 |
| 0.0 | 0.0 | 0.0 | 38.5 | 0.0 | | 38.5 |
| 0.0 | 0.0 | 0.0 | -38.8 | 0.0 | | -38.8 |
| 0.0 | 0.0 | 0.0 | 46.0 | 0.0 | | 46.0 |
| -15.2 | -0.4 | 250.4 | 1,683.9 | -0.2 | | 1,683.8 |

3.4 Consolidated Statement of Cash Flows

Consolidated Statement of Cash Flows

| IN EUR M | | Notes | Jan 1 – Dec 31, 2020 | Jan 1 – Dec 31, 2019 |
|-----------|--|---------------------|-------------------------|-------------------------|
| 1 | Net income for the period | | 226.1 | 99.7 |
| 2 | + Non-cash expenses from share-based payments | (21.) | 53.8 | 46.0 |
| 3 | - Cash paid for settlement of claims from share-based payments | | -3.5 | - |
| 4 | + Depreciation of property, plant and equipment, right-of-use assets and amortization of intangible assets | (11.), (12.) | 214.5 | 194.8 |
| 5 | + Income taxes | (8.) | 92.4 | 45.2 |
| 6 | - Income taxes paid, less refunds | | -116.7 | -96.5 |
| 7 | +/- Increase/decrease in provisions | (22.) | -2.1 | 6.1 |
| 8 | -/+ Other non-cash income/expenses | | 4.3 | 5.0 |
| 9 | +/- Decrease/increase in inventories | (16.) | -262.9 | -278.8 |
| 10 | +/- Decrease/increase in trade and other receivables | (17.) | -139.6 | -67.2 |
| 11 | +/- Increase/decrease in trade payables and similar liabilities | (23.) | 329.2 | 403.6 |
| 12 | -/+ Increase/decrease in other assets/liabilities | (14.), (18.), (24.) | 132.1 | -30.7 |
| 13 | = Cash flow from operating activities | (26.) | 527.4 | 327.2 |
| 14 | + Proceeds from disposal of property, plant and equipment, intangible assets and financial assets | (12.) | 32.7 | 22.5 |
| 15 | + Payments received from the sale of shares in associated and other companies | | 6.0 | - |
| 16 | - Cash paid for investments in property, plant and equipment | (12.) | -177.6 | -233.7 |
| 17 | - Cash paid for investments in intangible assets | (11.) | -72.5 | -72.8 |
| 18 | - Cash paid for acquisition of shares in associated companies and acquisition of companies and prepayments for such acquisitions | (15.) | -31.5 | -1.7 |
| 19 | +/- Cash received from/paid for investments in term deposits | (18.) | 25.0 | -5.0 |
| 20 | +/- Change in restricted cash | (14.) | - | 0.4 |
| 21 | = Cash flow from investing activities | (26.) | -217.8 | -290.3 |
| 22 | + Cash received from capital increases by the shareholders and stockoption exercises less transaction costs | (20.) | 55.1 | 38.5 |
| 23 | - Repurchase of treasury shares | (20.) | - | -38.8 |
| 24 | - Cash repayments of loans | | -2.8 | -2.8 |
| 25 | + Cash received from loans | (26.) | 375.0 | - |
| 26 | + Cash received from the issue of convertible bonds less transaction costs | (25.), (26.) | 994.0 | - |
| 27 | - Cash payments for the principal portion of lease liabilities | (13.) | -67.2 | -54.2 |
| 28 | = Cash flow from financing activities | (26.) | 1,354.1 | -57.3 |
| 29 | = Net change in cash and cash equivalents from cash-relevant transactions | | 1,663.6 | -20.4 |
| 30 | +/- Change in cash and cash equivalents due to exchange rate movements | | 3.9 | 1.9 |
| 31 | + Cash and cash equivalents at the beginning of the year | | 976.5 | 995.0 |
| 32 | = Cash and cash equivalents as of Dec 31 | | 2,644.0 | 976.5 |

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

Cash – Relevant Interests

| IN EUR M | Jan 1 – Dec 31, 2020 | Jan 1 – Dec 31, 2019 |
|-------------------|----------------------|----------------------|
| Interest paid | -28.5 | -25.6 |
| Interest received | 3.7 | 7.2 |
| Total | -24.8 | -18.4 |

Interest paid in fiscal year 2020 includes cash payments for the interest portion of the lease liabilities of EUR 11.8m (prior year: EUR 12.5m) classified as cash flow from operating activities (see also sections 3.5.5 and 3.5.7 (13.)).

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

Free Cash Flow

| IN EUR M | Jan 1 – Dec 31, 2020 | Jan 1 – Dec 31, 2019 |
|---|----------------------|----------------------|
| Cash flow from operating activities | 527.4 | 327.2 |
| Proceeds from disposal of non-current assets | 38.7 | 22.5 |
| Cash paid for investments in property, plant and equipment | -177.6 | -233.7 |
| Cash paid for investments in intangible assets | -72.5 | -72.8 |
| Cash paid for acquisitions of shares in associated companies and acquisition of companies and prepayments for such acquisitions | -31.5 | -1.7 |
| Free cash flow | 284.5 | 41.6 |

3.5 Notes to the Consolidated Financial Statements

3.5.1 Company Information

Company Name, Registered Office

ZALANDO SE (the “company”) is the parent of the Zalando group (“Zalando” or the “group”). The company was filed in the commercial register at the Berlin-Charlottenburg district court on May 28, 2014 (HRB 158855 B). ZALANDO SE's registered offices are located at Valeska-Gert-Straße 5 in 10243 Berlin, Germany. Zalando was founded in 2008. The shares of the company have been listed on the regulated market (Prime Standard) at the Frankfurt Stock Exchange since October 1, 2014.

Nature of Operating Activities

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

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

3.5.2 General Principles

Application of IFRS

The consolidated financial statements of ZALANDO SE for the fiscal year from January 1 to December 31, 2020, were compiled in accordance with the International Financial Reporting Standards (IFRS) as adopted by the EU as of the reporting date. In addition, the provisions of Section 315e (1) HGB (German Commercial Code) have been taken into account. The consolidated financial statements fairly present the group's financial position, financial performance and cash flows.

General Information

The consolidated financial statements have been prepared by accounting for assets and liabilities measured at amortized cost. Excluded from this are certain financial instruments that are measured at fair value. The statement of profit or loss within the statement of comprehensive income was prepared using the function of expense method. Assets and liabilities are classified and presented as current and non-current.

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

3.5.3 New Accounting Standards

Effects of New or Amended IFRS Relevant for Fiscal Year 2020

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

The IASB has issued no new IFRS subject to mandatory first-time application in the fiscal year 2020.

Amendments relate to minor changes to IFRS 2, IFRS 3, IFRS 6, IFRS 7, IFRS 9, IFRS 14, IAS 1, IAS 8, IAS 34, IAS 37, IAS 38, IAS 39, IFRIC 12, IFRIC 19, IFRIC 20, IFRIC 22 and SIC-32.

Application of all amendments above has been mandatory since January 1, 2020.

No amended standard subject to first-time application in fiscal year 2020 had a material impact on Zalando's financial performance, position or disclosure.

Furthermore, no standard or amended standard for which early adoption is permitted has been applied in the fiscal year.

New or Amended IFRS Not Yet Applied

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

| Standard / Interpretation | | Impending change |
|--|--|---|
| IFRS 17 | Insurance contracts including amendments to IFRS 17 issued in June 2020 | IFRS 17 contains a consistent model to account for insurance contracts. The standard establishes principles for the recognition, measurement, presentation and disclosure of insurance contracts and eliminates differences in accounting practices. IFRS 17 supersedes the interim standard IFRS 4. |
| Amendments to IFRS 16 | Leases | Practical expedient for lessees to elect not to assess whether a COVID-19 related rent concession is a lease modification and, in this case, to account for the change in lease payments as if the change were not a lease modification. |
| Amendments to IFRS 4 | Extension of the Temporary Exemption from Applying IFRS 9 | Extends the exemption not to apply IFRS 9 for insurers until annual periods beginning before 1 January 2023. |
| Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16 | Interest Rate Benchmark Reform – Phase 2 | Consists of several practical expedients mainly with regards to the modification of financial instruments, changes in existing hedge relationships and the designation of risk components due to the interest rate benchmark reform. |
| Amendments to IFRS 3 | Reference to the Conceptual Framework | Updates references in IFRS 3 to the Conceptual Framework issued in March 2018 and makes some minor clarifications regarding the exceptions to the recognition principle. |
| Amendments to IAS 16 | Property, Plant and Equipment: Proceeds before Intended Use | Sets out that proceeds from selling items produced when testing an asset and the cost of those items are to be recognized in profit or loss and not as an adjustment of the cost of that asset. |
| Amendments to IAS 37 | Onerous Contracts – Cost of Fulfilling a Contract | Clarifies that the cost of fulfilling a contract comprises the costs that relate directly to the contract and specifies these elements of cost directly related to a contract. |
| Amendments to IFRS 1, IFRS 9, IFRS 16 and IAS 41 | Annual Improvements to IFRS Standards 2018-2020 | Minor amendments to several IFRS. |
| Amendments to IAS 1 | Classification of Liabilities as Current or Non-current and Classification of Liabilities as Current or Non-current – Deferral of Effective Date | Clarification that a liability is not to be classified as current, if the entity has the right at the end of the reporting period to defer settlement of the liability for at least twelve months after the reporting date. |
| Amendments to IAS 8 | Definition of Accounting Estimates | Replaces the definition of changes in accounting estimates with a definition of accounting estimates to help entities distinguish changes in accounting policies from changes in accounting estimates. |
| Amendments to IAS 1 and IFRS Practice Statement 2 | Disclosure of Accounting Policies | Requires an entity to disclose its material accounting policy information instead of its significant accounting policies. It also clarifies and illustrates how an entity determines whether accounting policy information is material. The amendment also includes minor adjustments of IAS 26, IAS 34, IFRS 7 and IFRS 8. |

| IASB effective date | Endorsed by EU | Anticipated effects |
|---|-----------------------|---|
| January 1, 2023, early adoption permitted | No | Application is not expected to have any material effect on the consolidated financial statements. |
| June 1, 2020, early adoption permitted | Yes | Application is not expected to have any material effect on the consolidated financial statements. |
| January 1, 2021, early adoption permitted | Yes | Application is not expected to have any material effect on the consolidated financial statements. |
| January 1, 2021, early adoption permitted | Yes | Application is not expected to have any material effect on the consolidated financial statements. |
| January 1, 2022, early adoption permitted | No | Application is not expected to have any material effect on the consolidated financial statements. |
| January 1, 2022, early adoption permitted | No | Application is not expected to have any material effect on the consolidated financial statements. |
| January 1, 2022, early adoption permitted | No | Application is not expected to have any material effect on the consolidated financial statements. |
| January 1, 2022, early adoption permitted | No | Application is not expected to have any material effect on the consolidated financial statements. |
| January 1, 2023, early adoption permitted | No | Application is not expected to have any material effect on the consolidated financial statements. |
| January 1, 2023, early adoption permitted | No | Application is not expected to have any material effect on the consolidated financial statements. |
| January 1, 2023, early adoption permitted | No | Application is not expected to have any material effect on the consolidated financial statements. |

3.5.4 Principles of Consolidation

Basis of Consolidation

The number of subsidiaries included in the basis of consolidation decreased from 48 (prior year) to 47 in fiscal year 2020 (see section 3.5.8 (5.) and (8.) for details).

Reporting Date of the Consolidated Financial Statements

The consolidated financial statements cover fiscal year 2020 on the basis of the reporting period from January 1 to December 31, 2020. Apart from abbreviated reporting periods due to the establishment or acquisition of entities, the fiscal year of the consolidated entities also corresponds to the calendar year.

Consolidation Policies

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

The consolidated financial statements comprise ZALANDO SE and its subsidiaries over which the company has control within the meaning of IFRS 10.

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

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

Shares in associates, i.e. entities over which the owner can exercise significant influence within the meaning of IAS 28, are accounted for using the equity method. The same applies to joint ventures within the meaning of IFRS 11, i.e. arrangements whereby two or more parties have joint control over the net assets of the arrangement. Such investments are initially recorded at cost and subsequently updated to include any changes in the share of the investee's (joint venture) net assets attributable to the investor (joint venturer) after the acquisition date.

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

Currency Translation

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

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

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

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

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

Foreign Exchange Rates

| | ISO-Code | Closing rate | | Annual average rate | |
|-----------------------|----------|--------------|--------------|---------------------|---------|
| | | Dec 31, 2020 | Dec 31, 2019 | 2020 | 2019 |
| Pound sterling | GBP | 0.8990 | 0.8508 | 0.8897 | 0.8778 |
| Chinese yuan renminbi | CNY | 8.0225 | 7.8205 | 7.8747 | 7.7355 |
| Czech koruna | CZK | 26.2420 | 25.4080 | 26.4551 | 25.6705 |
| Danish krone | DKK | 7.4409 | 7.4715 | 7.4542 | 7.4661 |
| Hong Kong dollar | HKD | 9.5142 | 8.7473 | 8.8587 | 8.7715 |
| Norwegian krone | NOK | 10.4703 | 9.8638 | 10.7228 | 9.8511 |
| Polish zloty | PLN | 4.5597 | 4.2568 | 4.4431 | 4.2976 |
| Swedish krona | SEK | 10.0343 | 10.4468 | 10.4848 | 10.5891 |
| Swiss franc | CHF | 1.0802 | 1.0854 | 1.0705 | 1.1125 |
| US dollar | USD | 1.2271 | 1.1234 | 1.1422 | 1.1195 |

3.5.5 Accounting Policies

Intangible Assets

Intangible assets are measured at amortized cost. All intangible assets, except for goodwill, brands and domain rights, have a finite useful life. These are amortized over their useful life of three to fifteen years on a straight-line basis. The carrying amounts of brands and domain rights are immaterial from the group's perspective. The amortization period and the amortization method for an intangible asset with a finite useful life are reviewed at least at the end of each reporting period. Changes of the respective useful lives are taken into consideration prospectively when measuring amortization. Intangible assets are assessed for impairment whenever there is an indication that the intangible asset may be impaired. Regardless of any indication of impairment, intangible assets under development and goodwill acquired in business combinations are tested for impairment on the cash-generating unit level to which the asset belongs once a year.

Internally generated intangible assets are recognized at development cost if they satisfy the prerequisites of IAS 38 "Intangible Assets", i.e., a newly developed or significantly enhanced product/ software can be unambiguously identified, is intended to be completed and Zalando has the necessary resources to do so, is technically feasible, and is intended for own use. Other recognition requirements are the generation of probable future economic benefits and the ability to measure reliably the expenditure attributable to the intangible asset.

Capitalized development costs are amortized over an anticipated useful life of an average of about three years. Amortization of the asset begins when development is complete, and the asset is available for use. Research costs are expensed in the period in which they arise. An impairment test is performed once a year as long as the asset is under development regardless of any indications of impairment. The same applies to goodwill acquired and intangible assets with indefinite useful lives.

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

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

When testing for impairment pursuant to IAS 36, the carrying amount of an asset is compared to its recoverable amount. The asset is deemed to be impaired when the recoverable amount falls below its carrying amount. The asset is then written down to its recoverable amount through profit or loss. Otherwise, its carrying amount is retained. The recoverable amount is the higher of an asset's fair value (according to IFRS 13) less costs of disposal and its value in use. Internally developed software and goodwill are tested on the level of the cash-generating unit to which the asset belongs.

For the assets subject to impairment testing, the value in use typically exceeds their carrying amount. Consequently, in these cases there is no need to determine their fair value less costs of disposal (IAS 36.19). The fair value less costs of disposal is preferred only for transactions

to be tested which occurred close to the reporting date. At Zalando, value in use is calculated using cash flow projections based on approved budgets. A constant annual growth factor is assumed and the costs of capital before tax used as discount rate are measured on instruments with a comparable risk profile. The duration of the detailed planning phase is based on the (remaining) useful life of the assets being tested and is capped at five years. In the case of goodwill and intangible assets with indefinite useful lives, the terminal value is added to the planning phase. For startup businesses and similar subjects that need to be tested, an additional period between planning phase and terminal value is added to reflect the transition to a steady state situation.

Property, Plant and Equipment

Property, plant and equipment are recognized at cost and depreciated in accordance with their expected useful life using the straight-line method. Depreciation is charged over the following useful lives.

Useful Lives

| | Years |
|---|--------|
| Leasehold improvements | 7 – 17 |
| Plant and machinery | 5 – 20 |
| Other equipment, furniture and fixtures | 2 – 15 |

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

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

Impairment of Non-Financial Assets

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

Current Versus Non-Current Classification

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

An asset is classified as current when:

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

All other assets are classified as non-current.

A liability is classified as current if:

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

All other liabilities are classified as non-current.

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

Assets Held for Sale

Non-current assets (or the assets of a disposal group) are classified as held for sale and therefore presented separately within the statement of financial position if their carrying amount will be recovered principally through a sale transaction rather than through continuing use. This is the case, if:

- the asset (or disposal group) is available for sale and
- the sale is highly probable.

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

The liabilities of a disposal group classified as held for sale are also presented separately from other liabilities in the statement of financial position.

Leases – The Group as Lessee

At the commencement date of a lease, Zalando recognizes a right-of-use asset and a lease liability for all leases, except for short-term leases (i.e. leases with a lease term of 12 months or less) and leases for which the underlying asset is of low value. Zalando has chosen the practical expedient to recognize the lease payments associated with those leases as an expense on a straight-line basis over the lease term.

At the commencement date of the lease, the lease payments included in the measurement of the lease liability comprise primarily fixed payments (less any lease incentives received) and variable lease payments that depend on an index or rate, initially measured using the index or rate as at the commencement date. A change in variable payments related to a change in the underlying index or rate will lead to a remeasurement of the lease liability at the point in time this change is effective. The present value of the lease payments is calculated using the term and risk equivalent incremental borrowing rate, if the interest rate implicit in the lease cannot be readily determined. The lease term is based on the non-cancellable period of a lease. Periods covered by an option to extend (or terminate) the lease are included in the lease term if it is reasonably certain that such an option will be exercised (or will not be exercised in the case of a termination option).

Initially, right-of-use assets are recognized at the amount of the corresponding lease liability plus initial direct costs as well as less any lease incentives received. Costs of dismantling and removal are considered if they relate to the lease asset. Right-of-use assets are subsequently depreciated over the underlying lease term between one and seventeen years using the straight-line method.

Depreciation of right-of-use assets is presented within the functional area to which it relates. Interest expenses on lease liabilities are shown as interest and similar expenses. They are also included in cash flow from operating activities, whereas cash payments for the principal portion of lease liabilities are presented as a separate line item within the cash flow from financing activities.

Income Taxes

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

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

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

Deferred taxes are calculated using the liability method on the basis of IAS 12. Deferred taxes are recognized on temporary differences between the carrying amounts recognized in the consolidated financial statements and the tax accounts if these differences lead to future tax benefits or tax expenses. Measurement of deferred taxes is performed taking into account the tax rates and tax laws expected to apply at the time when the differences are reversed.

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

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

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

Inventories

Merchandise accounted for as inventories is recognized at cost pursuant to IAS 2. Cost is calculated on the basis of an item-by-item measurement, either based on goods market prices or moving average prices. Supplier payments that are to be classified as a reduction of cost reduce the carrying amount of inventories.

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

Financial Instruments

General Information

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

Financial assets and financial liabilities classified as financial instruments are generally not netted; they are netted only if the group currently has a legally enforceable right to set off and intends to settle the amounts on a net basis. Financial assets are derecognized when the contractual rights to the cash flows from the financial asset expire or the financial asset is transferred. Financial liabilities are derecognized when the contractual commitments have been discharged, cancelled, or have expired.

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

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

- at which the financial asset or financial liability is measured at initial recognition
- less any repayments and
- plus or minus the cumulative amortization using the effective interest method of any difference between that initial amount and the maturity amount and
- adjusted for loss allowance for financial assets.

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

Financial Assets

Financial assets are classified as one of the following categories for the purpose of subsequent measurement:

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

When financial assets are recognized initially, they are measured at fair value, except for trade receivables, which Zalando measures at their transaction price at initial recognition. For all categories except financial assets at fair value through profit or loss, the transaction costs incurred are included in initial recognition.

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

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

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

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

Impairment of Financial Assets

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

For trade receivables Zalando applies the simplified approach of IFRS 9 to measure the loss allowance at an amount equal to the lifetime expected credit losses. Zalando uses a scenario-based approach for this purpose and takes into account sales-channel and country-specific allowance rates based on expected risks of default and how long the trade receivables are past due.

Receivables, together with the allowance recognized, are written off when there is no realistic prospect of future recovery and all collateral has been realized or the right to receive cash flows has been settled.

Financial Liabilities

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

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

Financial liabilities at fair value through profit or loss include financial liabilities designated upon initial recognition as measured at fair value through profit or loss. In particular, these include derivative financial instruments that are not designated as hedging instruments. Gains and losses from the subsequent measurement are recognized through profit or loss.

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

Compound financial instruments

Zalando evaluates at issue of a non-derivative financial instrument whether it contains both a liability and an equity component. For its convertible bonds, Zalando recognizes separately a financial liability presented within the line item convertible bonds and an equity instrument presented in capital reserves. The liability component is initially measured at fair value, using the interest and principal payments discounted with a risk-adjusted interest rate of a comparable debt instrument without a conversion right. The equity component is initially measured at the residual value resulting from deduction of the fair value of the liability component from the fair value of the compound instrument as a whole, i.e. the fair value of the proceeds received. The liability is subsequently measured at amortized cost. The equity component is not measured subsequently. Incremental costs directly attributable to the issue of the compound instrument are allocated as transaction costs to the components pro rata on the basis of their initial fair values. Hence, the initial carrying amount of each component is measured at fair value less allocated transaction costs.

Derivative Financial Instruments and Hedge Accounting

Zalando uses derivative financial instruments such as forward exchange contracts and interest rate swaps exclusively to hedge its risks associated with foreign currency and interest rate fluctuations. Such derivative financial instruments are initially recognized at fair value on the date on which a derivative contract is entered into and are subsequently remeasured at fair

value. Derivative financial instruments are reported as financial assets if their fair value is positive. They are presented as financial liabilities in the statement of financial position if their fair value is negative.

Changes in the fair value of derivative financial instruments are recognized either through profit or loss or other comprehensive income, depending on whether the hedge accounting requirements of IFRS 9 are met.

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

As part of its risk management, Zalando has formally set out and documented objectives and strategies for mitigating risk when using cash flow hedges.

A portion of the forward exchange contracts is used to hedge goods purchased in US dollar and Pound sterling and the resulting trade payables. Another portion of the forward exchange contracts is used to hedge goods sold in foreign currency and the resulting trade receivables. These forward exchange contracts are concluded in Pound sterling, Swiss franc, Czech koruna, Norwegian krone, Polish zloty and Swedish krona.

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

Cash Flow Hedges

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

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

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

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

Fair Value Measurement

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

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

- Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities
- Level 2: inputs other than quoted prices that are observable, either directly or indirectly, and which have a significant effect on the measurement of the asset or liability
- Level 3: unobservable inputs for the assets and liabilities

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

Provisions

General Information

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

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

Restoration Obligations

The group recognizes provisions for restoration expenses for leasehold improvements in the leased fulfillment centers and office buildings. The provision is recognized at an amount equivalent to the present value of the estimated future restoration obligations. The restoration obligations are recognized as part of the cost of leasehold improvements for the corresponding amount. The estimated cash flows are discounted using a discount rate that is commensurate with the maturity and the risk profile. Unwinding of the discount is expensed as incurred and recognized as an interest expense in the statement of comprehensive income.

Share-Based Payments

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

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

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

No expense is recognized for awards that do not ultimately vest due to a service or performance condition not being fulfilled. Equity-settled payment models with market-related performance conditions and other non-vesting conditions affect the fair value of the payment on the grant date only.

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

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

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

Revenue Recognition

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

Zalando identifies its performance obligations as the distinct goods or services promised in a contract with a customer. Apart from the shipping fees (e.g. "express delivery" or "minimum

order fee”) and “Zalando Plus”, the goods or services promised by Zalando (goods, free delivery and returns with a return policy of up to 100 days, free customer care) create a bundle that is distinct, i.e. the identified performance obligation.

When selling merchandise to customers, Zalando transfers control over the promised goods and services at a point in time. This is generally the case when the goods are delivered. In contrast, performance obligations under “Zalando Plus” are satisfied over time and revenue is therefore also recognized over time.

In assessing the consideration expected to be received, Zalando takes into account the right of return granted to the customers. Revenue is not recognized unless sufficient figures are available on the probability of the exercise of these rights based on past experience. The expected volume of returns is estimated and recognized as reducing revenue.

Expected Returns

Zalando presents the expected returns of goods on a gross basis in the statement of profit or loss and reduces revenue by the full amount of sales that is estimated to be returned. The dispatch of goods that is recorded in full upon delivery of the goods is then corrected by the estimated amount of returns.

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

Trade receivables for which delivered goods are expected to be returned are also derecognized.

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

Government Grants

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

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

3.5.6 Use of Estimates and Assumptions

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

- identification and determination of write-downs of merchandise and receivables; see comments under notes 3.5.7 (16.) and 3.5.7 (17.),
- setting the expected rate of returns, see comments under note 3.5.7 (23.),
- the determination of the fair value of obligations from financial liabilities and share-based payments; see comments under 3.5.7 (21.) as well as note 3.5.8 (1.),
- the determination of the recoverability of deferred tax assets on unused tax losses and from share-based payment transactions; see comments under notes 3.5.7 (8.) and 3.5.7 (27.),
- impairment test for goodwill and intangible assets under development; see comments under note 3.5.7 (11.),
- determination of the lease term and corresponding discount rate; see section 3.5.7 (13.)

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

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

(1.) Revenue

Revenue

| IN EUR M | Jan 1 – Dec 31, 2020 | Jan 1 – Dec 31, 2019 |
|--------------------------------------|----------------------|----------------------|
| Revenue from the sale of merchandise | 7,322.0 | 6,155.5 |
| Revenue from other services | 660.0 | 327.0 |
| Total | 7,982.0 | 6,482.5 |

Revenue from the sale of merchandise comprise the amount of the consideration ZALANDO SE expects to or has already received in exchange for providing the merchandise to our customers within the Wholesale and Offprice business. Revenue from other services mainly comprises commissions within the Partner Program as well as revenues from our Zalando Marketing Services, amounts related to our Zalando Fulfillment Solutions and shipping fees.

In 2020, Revenue increased by 23.1% or EUR 1,499.5m from EUR 6,482.5m to EUR 7,982.0m in 2020. 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.

The strong 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.

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 ambition to improve our customer experience. The rising number of active customers was 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.

(2.) Cost of Sales

Cost of Sales

| IN EUR M | Jan 1 – Dec 31, 2020 | Jan 1 – Dec 31, 2019 |
|---------------------|----------------------|----------------------|
| Non-personnel costs | 4,437.1 | 3,582.7 |
| Personnel costs | 150.7 | 141.6 |
| Total | 4,587.8 | 3,724.3 |

Cost of sales mainly consists of cost of materials, personnel expenses, allowances on inventories, third-party services and infrastructure costs. The cost of materials in the group totals EUR 3,953.9m (prior year: EUR 3,268.5m).

Cost of sales rose year-on-year by 23.2% 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.

(3.) Selling and Distribution Costs

Selling and Distribution Costs

| IN EUR M | Jan 1 – Dec 31, 2020 | Jan 1 – Dec 31, 2019 |
|---------------------|----------------------|----------------------|
| Non-personnel costs | 2,346.5 | 1,920.6 |
| Personnel costs | 369.5 | 374.6 |
| Total | 2,716.0 | 2,295.2 |

In 2020, selling and distribution costs rose from EUR 2,295.2m to EUR 2,716.0m. This figure is made up of fulfillment costs of EUR 2,055.1m (prior year: EUR 1,773.0m) and marketing costs of EUR 660.9m (prior year: EUR 522.2m).

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 its 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 the margin. 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.

(4.) Administrative Expenses

Administrative Expenses

| IN EUR M | Jan 1 – Dec 31, 2020 | Jan 1 – Dec 31, 2019 |
|---------------------|----------------------|----------------------|
| Non-personnel costs | 134.1 | 131.8 |
| Personnel costs | 185.1 | 167.1 |
| Total | 319.2 | 298.9 |

Administrative expenses increased from EUR 298.9m in 2019 to EUR 319.2m in 2020, implying a decrease of 0.6 percentage points from 4.6% to 4.0% 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 .

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

(5.) Other Operating Income

Other operating income increased by EUR 8.5m from EUR 18.2m in 2019 to EUR 26.7m in 2020.

Zalando recognized income relating to other periods, indemnifications for damages as well as proceeds from the sale of assets.

(6.) Other Operating Expenses

Other operating expenses of EUR 18.7m (prior year: EUR 16.6m) mainly stem from expenses relating to other periods, damages and disposals of assets (see section 3.5.7 (12.)).

(7.) Financial Result

Financial Result

| IN EUR M | Jan 1 – Dec 31, 2020 | Jan 1 – Dec 31, 2019 |
|---|-------------------------|-------------------------|
| Interest and similar income | 16.1 | 10.4 |
| thereof from hedging derivatives | 15.1 | 10.7 |
| thereof from trade and other receivables | 1.5 | 0.9 |
| thereof from other financial instruments | -0.5 | -1.2 |
| Interest and similar expenses | -58.2 | -29.4 |
| thereof from financial liabilities at amortized cost | -27.5 | -7.4 |
| thereof from hedging derivatives | -21.6 | -9.4 |
| thereof other interest and similar expenses | -9.1 | -12.6 |
| Result of investments accounted for using the equity method | 0.1 | -3.9 |
| Other financial result | -6.6 | 2.0 |
| thereof from hedging transactions | -4.5 | -2.1 |
| thereof from currency effects | -2.1 | 4.1 |
| Financial result | -48.6 | -20.9 |

Interest and similar income from other financial instruments includes negative interest of EUR 0.6m (2019: EUR 1.3m). Interest and similar expenses mainly increased due to the interest expenses of the newly issued convertible bonds of EUR 10.2m. Besides this position includes interest on lease liabilities of EUR 11.8m (prior year: 12.5m). The expenses for hedging derivatives increased due to a less favorable development of exchange rates. The other interest and similar expenses contain negative interest of EUR 6.2m. The currency effects in other financial result are caused mainly by valuation effects in PLN.

(8.) Income Taxes

Income taxes include deferred taxes and current income taxes paid or payable in the respective countries. Income taxes comprise trade tax, corporate income tax, solidarity surcharge and the equivalent foreign tax charges. As in the prior year, the statutory corporate income tax rate, including solidarity surcharge, for the 2020 assessment period in Germany was 15.8%. The applicable trade tax rate was also unchanged in comparison to the prior year at 14.7%. This results in an expected tax rate for the group of 30.5% (prior year: 30.5%).

Current and deferred taxes are presented in the following table.

Income Taxes

| IN EUR M | Jan 1 – Dec 31, 2020 | Jan 1 – Dec 31, 2019 |
|----------------|----------------------|----------------------|
| Deferred taxes | 8.5 | 15.0 |
| Current taxes | -100.9 | -60.2 |
| Total | -92.4 | -45.2 |

As of the reporting date, the Zalando group maintains unused corporate income tax losses of EUR 101.8m (prior year: EUR 99.5m²⁷) and unused trade tax losses of EUR 42.6m (prior year: EUR 44.3m²⁸). As in the prior year, loss carry forwards are mainly attributable to foreign subsidiaries and can be carried forward indefinitely. The amount of these unused tax losses depends on the final assessment by the applicable tax office.

The utilization of unused tax losses for which no deferred tax assets have been recognized in the past affect the tax result by a total of EUR 0.3m in the reporting year (prior year: EUR 4.6m).

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

Tax Rate Reconciliation

| IN EUR M | Jan 1 – Dec 31, 2020 | Jan 1 – Dec 31, 2019 |
|---|----------------------|----------------------|
| Earnings before taxes | 318.5 | 144.9 |
| Income tax rate for the group | 30.5% | 30.5% |
| Expected tax expense (-) / tax income (+) | -97.1 | -44.2 |
| Share of taxes for: | | |
| Non-deductible expenses, tax-free income | -7.0 | -9.9 |
| Recognition of previously unrecognized unused tax losses, tax credits | 3.5 | 0.7 |
| Unrecognized unused tax losses | 0.2 | 0.8 |
| Entities included using the equity method | 0.0 | -1.2 |
| Tax expenses (-) / tax income (+) relating to other periods | 3.6 | 3.0 |
| Tax rate differences | 4.6 | 5.8 |
| thereof share of subsidiaries with higher tax rates | -0.4 | 0.3 |
| thereof share of subsidiaries with lower tax rates | 5.1 | 5.5 |
| Other | 0.0 | -0.2 |
| Income tax expense according to the consolidated statement of comprehensive income | -92.4 | -45.2 |
| Effective tax rate | 29.0% | 31.2% |

27) The tax losses of the prior year have been adjusted.

28) The tax losses of the prior year have been adjusted.

(9.) Earnings per Share

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

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

Basic Earnings per Share (EPS)

| | Jan 1 – Dec 31, 2020 | Jan 1 – Dec 31, 2019 |
|---|----------------------|----------------------|
| Net income for the period attributable to the shareholders of ZALANDO SE (in EUR m) | 226.1 | 99.7 |
| Basic weighted average number of shares (in millions) | 250.5 | 247.6 |
| Total (in EUR) | 0.90 | 0.40 |

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

Diluted Earnings per Share (EPS)

| | Jan 1 – Dec 31, 2020 | Jan 1 – Dec 31, 2019 |
|---|----------------------|----------------------|
| Net income for the period attributable to the shareholders of ZALANDO SE (in EUR m) | 226.1 | 99.7 |
| Basic weighted average number of diluted shares (in millions) | 261.5 | 256.3 |
| Total (in EUR) | 0.86 | 0.39 |

The dilutive effect stems solely from equity-settled share-based payment awards granted to employees. All employee options were taken into account in the calculation of the diluted earnings per share, except for those equity-settled share-based payments, which include performance conditions that had not yet been met as of the reporting date or were out of the money. As a result, options granted within the scope of LTI 2018 and LTI 2019 (prior year: LTI 2019, LTI 2018, VSOP 2018, EIP in 2019 as well as OTM Options granted under EIP in 2017 and 2018 and Type B Options granted under VSOP 2017) were not taken into account in the calculation of diluted earnings.

(10.) Personnel Expenses

Personnel Expenses

| IN EUR M | Jan 1 – Dec 31, 2020 | Jan 1 – Dec 31, 2019 |
|---|----------------------|----------------------|
| Wages and salaries | 656.4 | 630.8 |
| Social security, pensions and other benefit costs | 116.4 | 108.4 |
| thereof pension costs | 0.5 | 0.4 |
| Total | 772.8 | 739.2 |

The average number of salaried employees²⁹ in the group was 13,868 in fiscal year 2020 (prior year: 14,237). Contributions to the statutory pension insurance scheme rose by EUR 0.7m to EUR 49.5m (prior year: EUR 48.8m).

(11.) Intangible Assets

Statement of Movements of Intangible Assets 2020

| IN EUR M | Capitalized development costs | Industrial rights, similar rights and assets as well as licenses | Goodwill | Prepayments and assets under development | Total |
|----------------------------------|-------------------------------|--|-------------|--|--------------|
| Historical cost | | | | | |
| As of Jan 1, 2020 | 225.5 | 51.6 | 49.4 | 47.7 | 374.2 |
| Additions | 34.8 | 5.3 | 7.0 | 63.6 | 110.7 |
| Disposals | -0.6 | -0.2 | 0.0 | -2.0 | -2.8 |
| Reclassifications | 23.1 | 16.7 | 0.0 | -39.7 | 0.0 |
| Reclassified as held for sale | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Currency translation differences | 0.0 | 0.4 | 0.0 | 0.0 | 0.4 |
| As of Dec 31, 2020 | 282.8 | 73.8 | 56.4 | 69.6 | 482.6 |
| Amortization | | | | | |
| As of Jan 1, 2020 | 142.0 | 38.5 | 0.0 | 1.0 | 181.5 |
| Additions | 58.4 | 6.8 | 0.0 | 0.4 | 65.6 |
| Disposals | -0.5 | -0.1 | 0.0 | 0.0 | -0.6 |
| Reclassifications | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Reclassified as held for sale | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Currency translation differences | 0.0 | 0.1 | 0.0 | 0.0 | 0.1 |
| As of Dec 31, 2020 | 199.9 | 45.3 | 0.0 | 1.4 | 246.6 |
| Carrying amounts | | | | | |
| As of Dec 31, 2019 | 83.5 | 13.1 | 49.4 | 46.7 | 192.8 |
| As of Dec 31, 2020 | 82.9 | 28.5 | 56.4 | 68.2 | 236.0 |

²⁹⁾ Excluding apprentices and working students.

Statement of Movements of Intangible Assets 2019

| IN EUR M | Capitalized development costs | Industrial rights, similar rights and assets as well as licenses | Goodwill | Prepayments and assets under development | Total |
|----------------------------------|-------------------------------|--|-------------|--|--------------|
| Historical cost | | | | | |
| As of Jan 1, 2019 | 171.2 | 57.7 | 49.4 | 41.6 | 319.9 |
| Additions | 26.9 | 1.2 | 0.0 | 41.6 | 69.7 |
| Disposals | -2.5 | -0.6 | 0.0 | -3.5 | -6.6 |
| Reclassifications | 29.8 | 2.3 | 0.0 | -32.0 | 0.0 |
| Reclassified as held for sale | 0.0 | -9.0 | 0.0 | 0.0 | -9.0 |
| Currency translation differences | 0.1 | 0.0 | 0.0 | 0.0 | 0.1 |
| As of Dec 31, 2019 | 225.5 | 51.6 | 49.4 | 47.7 | 374.2 |
| Amortization | | | | | |
| As of Jan 1, 2019 | 96.3 | 34.5 | 0.0 | 0.0 | 130.9 |
| Additions | 47.2 | 13.3 | 0.0 | 1.8 | 62.3 |
| Disposals | -2.5 | 0.0 | 0.0 | -0.8 | -3.3 |
| Reclassifications | 1.0 | -1.0 | 0.0 | 0.0 | 0.0 |
| Reclassified as held for sale | 0.0 | -8.3 | 0.0 | 0.0 | -8.3 |
| Currency translation differences | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| As of Dec 31, 2019 | 142.0 | 38.5 | 0.0 | 1.0 | 181.5 |
| Carrying amounts | | | | | |
| As of Dec 31, 2018 | 74.9 | 23.2 | 49.4 | 41.6 | 189.1 |
| As of Dec 31, 2019 | 83.5 | 13.1 | 49.4 | 46.7 | 192.8 |

The additions in intangible assets mainly relate to capitalized development costs as well as to prepayments and assets under development totalling EUR 98.4m (prior year: EUR 68.5m). Of these, EUR 67.3m is attributable to internally developed software and EUR 31.1m reported under prepayments and assets under development is linked to the acquisition of Fision AG, Zurich, Switzerland ('Fision') (see section 3.5.8 (5.)). The business combination further led to the recognition of goodwill of EUR 7.0m.

Apart from goodwill (see below), brand names and domain rights of EUR 2.6m (prior year: EUR 2.6m) were assigned an indefinite useful life since there are no legal, regulatory, contractual, competition-related, economic or other factors that would define the useful life.

Research costs were recognized directly through profit or loss.

Amortization of EUR 65.6m was recorded in the reporting period (prior year: EUR 62.3m). Of this amount, EUR 9.6m (prior year: EUR 7.1m) is recognized in cost of sales, EUR 47.7m

(prior year: EUR 47.8m) in selling and distribution costs, and EUR 8.3m (prior year: EUR 7.4m) in administrative expenses.

Impairment Test for Goodwill

Zalando recognized goodwill totaling EUR 56.4m as of December 31, 2020 (prior year: EUR 49.4m). As this amount is not deemed to be material for the group, we only provide the following information about the impairment test for goodwill.

The goodwill is allocated to three units (Anatwine, Tradebyte and Fashion Store), being either individual cash-generating units or a group of cash-generating units. Anatwine and Tradebyte are disclosed in "All other segments" whereas Fashion Store has been identified as an operating segment for which Zalando reports separate information. No unit or group of units to which goodwill is allocated is larger than an operating segment defined by IFRS 8.

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

Zalando calculated the discount rate before taxes using the capital asset pricing model. Consequently, a risk-free rate, a market risk premium and a spread for credit risk based on the respective business-specific peer group were determined. In addition, the calculations include capital structure and the beta factor of the respective peer group as well as the average tax rate of each cash-generating unit. The resulting discount rates before taxes lie in the range of 11.3% to 13.2% (prior year: 12.1% to 12.9%).

The annual impairment testing did not result in any goodwill impairment losses. In addition to testing for impairment, it was tested whether possible changes in the key assumptions could reasonably lead to the carrying amount of the units exceeding their respective recoverable amounts. Such a situation did not exist as of December 31, 2020 (prior year: no such situation existed).

(12.) Property, Plant and Equipment

Statement of Movements of Property, Plant and Equipment 2020

| IN EUR M | Plant and machinery | Other equipment, furniture and fixtures | Land and buildings and buildings on third-party land | Prepayments and assets under construction | Total |
|----------------------------------|---------------------|---|--|---|----------------|
| Historical cost | | | | | |
| As of Jan 1, 2020 | 496.8 | 173.6 | 3.3 | 223.1 | 896.8 |
| Additions | 24.0 | 13.3 | 9.7 | 132.5 | 179.5 |
| Disposals | -8.0 | -12.3 | -0.6 | -1.0 | -21.9 |
| Reclassifications | 144.8 | 26.6 | 5.4 | -176.9 | 0.0 |
| Reclassified to held for sale | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Currency translation differences | 2.0 | 0.2 | 0.0 | 0.6 | 2.8 |
| As of Dec 31, 2020 | 659.6 | 201.4 | 17.8 | 178.3 | 1,057.1 |
| Depreciation | | | | | |
| As of Jan 1, 2020 | 101.8 | 85.6 | 1.0 | 0.0 | 188.4 |
| Additions | 45.7 | 25.9 | 0.9 | 0.0 | 72.5 |
| Disposals | -8.0 | -11.4 | -0.5 | 0.0 | -19.9 |
| Reclassifications | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Reclassified to held for sale | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Currency translation differences | 4.7 | 1.2 | 0.1 | 0.0 | 6.0 |
| As of Dec 31, 2020 | 144.2 | 101.3 | 1.5 | 0.0 | 247.0 |
| Carrying amounts | | | | | |
| As of Dec 31, 2019 | 395.0 | 88.0 | 2.3 | 223.1 | 708.4 |
| As of Dec 31, 2020 | 515.4 | 100.1 | 16.3 | 178.3 | 810.1 |

Statement of Movements of Property, Plant and Equipment 2019

| IN EUR M | Plant and machinery | Other equipment, furniture and fixtures | Land and buildings and buildings on third-party land | Prepayments and assets under construction | Total |
|----------------------------------|---------------------|---|--|---|--------------|
| Historical cost | | | | | |
| As of Jan 1, 2019 | 387.9 | 132.7 | 2.7 | 153.1 | 676.4 |
| Additions | 37.7 | 31.4 | 2.3 | 176.3 | 247.7 |
| Disposals | -1.2 | -5.1 | 0.0 | 0.0 | -6.3 |
| Reclassifications | 74.8 | 16.8 | 0.1 | -91.8 | -0.1 |
| Reclassified to held for sale | -2.5 | -2.2 | -1.8 | -14.6 | -21.1 |
| Currency translation differences | 0.1 | 0.0 | 0.0 | 0.1 | 0.2 |
| As of Dec 31, 2019 | 496.8 | 173.6 | 3.3 | 223.1 | 896.8 |
| Depreciation | | | | | |
| As of Jan 1, 2019 | 64.0 | 65.4 | 0.6 | 0.0 | 130.0 |
| Additions | 38.4 | 24.9 | 1.2 | 0.0 | 64.5 |
| Disposals | -0.5 | -4.1 | 0.0 | 0.0 | -4.6 |
| Reclassifications | 0.0 | 0.7 | -0.7 | 0.0 | 0.0 |
| Reclassified to held for sale | -0.1 | -1.2 | -0.1 | 0.0 | -1.4 |
| Currency translation differences | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| As of Dec 31, 2019 | 101.8 | 85.6 | 1.0 | 0.0 | 188.4 |
| Carrying amounts | | | | | |
| As of Dec 31, 2018 | 323.9 | 67.3 | 2.1 | 153.1 | 546.4 |
| As of Dec 31, 2019 | 395.0 | 88.0 | 2.3 | 223.1 | 708.4 |

This year's additions to property, plant and equipment of EUR 179.5m (prior year: EUR 247.7m) mainly pertain to the continuous expansion of the fulfillment centers in Rotterdam (Bleiswijk), Netherlands, Verona (Nogarole Rocca), Italy, as well as Olsztynek, Poland. Disposals are mainly related to assets previously used in Brieselang which reached the end of their useful life and were therefore retired from use and derecognized in fiscal year 2020.

In 2020, no assets were reclassified to held for sale. In 2019, the assets held for sale of EUR 35.9m mainly contained undeveloped land in Berlin and assets relating to the disposal group Kickz.com GmbH. Major classes of assets and liabilities classified as held for sale were property, plant and equipment, intangible assets and right-of-use assets as well as inventories, trade payables and lease liabilities. All assets classified as held for sale as of December 31, 2019, were sold within the first six months of 2020.

Depreciation of property, plant and equipment totaled EUR 72.5m (prior year: EUR 64.5m). Of this total, an amount of EUR 11.0m (prior year: EUR 7.7m) is recognized in cost of sales,

EUR 49.2m (prior year: EUR 43.8m) in selling and distribution costs and EUR 12.3m (prior year: EUR 13.0m) in administrative expenses.

(13.) Right-of-Use Assets and Lease Liabilities

Zalando's leases are mainly related to buildings (e.g. fulfillment centers, office buildings and outlets). These contracts include options to extend and, in some cases, to terminate the contracts. Furthermore, contracts contain variable payments depending on the development of consumer price indexes as well as payments relating to non-lease components (e.g. service costs). Other leases recognized in right-of-use assets mainly relate to other equipment (e.g. company cars).

At the end of the reporting period, right-of-use assets totaled EUR 479.8m (prior year: EUR 525.6m). Additions to right-of-use assets amounted to EUR 27.9m (prior year: EUR 134.6m) and mainly relate to the commencement of the lease contracts of our new office in Dublin, Ireland as well as our new outlets in Mannheim and Ulm. During fiscal year, Zalando recognized depreciation in the amount of EUR 72.7m (prior year: EUR 68.1m). Of this total, an amount of EUR 6.2m (prior year: EUR 4.9m) is recognized in cost of sales, EUR 39.7m (prior year: EUR 36.9m) in selling and distribution costs and EUR 26.8m (prior year: EUR 26.4m) in administrative expenses. A breakdown by class of underlying asset is as follows:

Right-of-use Assets 2020

| IN EUR M | Depreciation | Additions | Carrying amount as of Dec 31, 2020 |
|-----------------|--------------|-------------|------------------------------------|
| Buildings | 72.4 | 27.9 | 479.5 |
| Other equipment | 0.3 | 0.0 | 0.3 |
| Total | 72.7 | 27.9 | 479.8 |

Right-of-use Assets 2019

| IN EUR M | Depreciation | Additions | Carrying amount as of Dec 31, 2019 |
|-----------------|--------------|--------------|------------------------------------|
| Buildings | 67.8 | 134.2 | 524.9 |
| Other equipment | 0.3 | 0.4 | 0.7 |
| Total | 68.1 | 134.6 | 525.6 |

Total lease liabilities amount to EUR 516.7m as of December 31, 2020 (EUR 549.3m as of December 31, 2019). Maturity of the undiscounted payments related to the lease liabilities is as follows:

Maturity of Lease Liabilities

| IN EUR M | Due in | | | | Total | Carrying amount as of Dec 31, |
|-------------|------------------|--------------|-------------------|--------------|--------------|-------------------------------|
| | Less than 1 year | 1 - 5 years | More than 5 years | | | |
| 2020 | 83.1 | 280.2 | 203.2 | 566.5 | 516.7 | |
| 2019 | 80.1 | 280.6 | 249.8 | 610.5 | 549.3 | |

Variable payments relate to rent payments depending on consumer price indexes. As a rule, adjustments will be made, if applicable, once a year. On average, the rent payable is changed at a rate of about 80-90% of the change of the underlying index. In 2020, additional payments for such index-based rent adjustments totaled EUR 0.4m (prior year: EUR 0.2m). Expenses in fiscal year 2020 which were not included in the measurement of lease liabilities amounted to EUR 0.3m (prior year: EUR 0.5m).

Options to extend the lease contracts are material from the group's perspective. They vary between three and up to twenty years. Exercising all of these options could lead to an additional total cash outflow of EUR 860.7m (prior year: EUR 810.7m). Additionally, Zalando has committed to enter into several lease contracts not yet commenced. This includes a new fulfillment center in the Netherlands and a new logistics site in Spain, three new offices in Berlin and four new outlets in Germany. Commencement will take place between 2021 and 2023. These lead to total additional payments (including all options to extend these leases) of up to EUR 598.5m (prior year: EUR 538.8m).

Furthermore, Zalando leases office and photo equipment as well as rental cars. Such leases are in general either short-term leases or leases for assets of low value. Corresponding to our accounting policies described in section 3.5.5, Zalando applies for these contracts the practical expedient of IFRS 16.5 and recognizes lease payments on a straight-line basis over the respective lease term in accordance with IFRS 16.6. In fiscal year 2020, expenses relating to short-term leases are EUR 2.9m (prior year: EUR 5.6m) and expenses for leases of low-value assets amount to EUR 0.1m (prior year: EUR 1.2m). There is no material change in the portfolio of short-term leases during the fiscal year.

Interest expenses on lease liabilities total EUR 11.8m for fiscal year 2020 (prior year: EUR 12.5m); they are recognized within the cash flow from operating activities. Cash payments for the principal portion of the lease liabilities total EUR 67.2m (prior year: EUR 54.2m); they are presented within the cash flow from financing activities (see section 3.4 and 3.5.7 (26.)).

The total cash outflow for leases in 2020 for the group (including payments for short-term and low-value leases) amounts to EUR 82.3m (prior year: EUR 73.5m).

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

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

Non-Current Financial and Non-Financial Assets

| IN EUR M | Dec 31, 2020 | Dec 31, 2019 | Change |
|---|--------------|--------------|-------------|
| Other non-current financial assets | 11.9 | 10.1 | 1.8 |
| thereof derivative financial instruments | 0.9 | 0.1 | 0.8 |
| thereof restricted cash | 2.5 | 2.5 | 0.0 |
| thereof other financial instruments | 8.5 | 7.6 | 0.9 |
| Other non-current non-financial assets | 5.1 | 7.3 | -2.2 |
| thereof deferred items | 5.1 | 7.3 | -2.2 |

(15.) Investments Accounted for Using the Equity Method

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

Investments Accounted for Using the Equity Method

| IN EUR M | Dec 31, 2020 | Dec 31, 2019 | Change |
|------------------|--------------|--------------|------------|
| Le New Black SAS | 1.7 | 1.6 | 0.1 |
| Total | 1.7 | 1.6 | 0.1 |

The development of the total carrying amount in 2020 is mainly influenced by Zalando's share of the associate's net income (EUR 0.1m).

(16.) Inventories

Inventories of merchandise, mainly consisting of shoes and textiles, are recognized in an amount of EUR 1,361.2m (prior year: EUR 1,098.3m). The EUR 262.9m increase in inventories resulted from the increased business volume.

Allowances of EUR 206.4m were recognized on inventories and the right to repossess goods associated with expected returns (prior year: EUR 125.1m). Expenses for allowances recorded on inventories were EUR 218.1m in the reporting year (prior year: EUR 179.7m).

The exceptional inventory write-down of EUR 40.2m that Zalando recognized during the first quarter due to revised sales expectations at the beginning of the coronavirus crisis was fully reversed. Driven by the strong sell-through of seasonal items, Zalando was able to release valuation allowances of inventories of EUR 11.3m in Q2 2020 and EUR 28.9m in Q3 2020.

(17.) Trade and Other Receivables

Trade receivables are mainly due from customers of ZALANDO SE. The entire portfolio of receivables was reduced by bad debt allowances, as in the prior year.

On aggregate, the bad debt allowances developed as follows:

Development of Bad Debt Allowances

| IN EUR M | Dec 31, 2020 | Dec 31, 2019 |
|--|--------------|--------------|
| Accumulated bad debt allowances as of Jan 1 | 103.2 | 99.0 |
| Additions to portfolio-based specific bad debt allowance | 64.4 | 59.2 |
| Utilizations | -25.6 | -41.7 |
| Reversals | -2.5 | -12.6 |
| Exchange rate effects and other changes | 0.1 | -0.8 |
| Accumulated bad debt allowances as of Dec 31 | 139.7 | 103.2 |

Additions to bad debt allowances totaled EUR 64.4m in the reporting year (prior year: EUR 59.2m). Of the bad debt allowances recognized as of December 31 of the prior year, EUR 2.5m was reversed (prior year: EUR 12.6m) and EUR 25.6m utilized (prior year: EUR 41.7m). Bad debt losses for uncollectible receivables amounted to EUR 28.0m in the fiscal year (prior year: EUR 50.1m).

Bad debt allowances are in line with prior year's allowances. Zalando continues to optimize and improve its steering of payment options and works with solvency score providers for better monitoring of fraudulent activities, resulting in a low level of bad debt allowances.

Additions to bad debt allowances are reported under selling and distribution costs. Receivables do not bear interest and are therefore not subject to interest rate risk.

Prepayments are recognized in trade and other receivables and increased by EUR 0.5m to EUR 0.6m as of December 31, 2020.

(18.) Other Current Financial Assets and Other Current Non-Financial Assets

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

Other Current Financial and Non-Financial Assets

| IN EUR M | Dec 31, 2020 | Dec 31, 2019 | Change |
|---|--------------|--------------|--------------|
| Other current financial assets | 32.0 | 42.8 | -10.8 |
| thereof term deposits | 0.0 | 25.0 | -25.0 |
| thereof derivative financial instruments | 20.5 | 7.0 | 13.5 |
| thereof creditors with debit balance | 10.8 | 9.5 | 1.3 |
| thereof other financial instruments | 0.7 | 1.2 | -0.5 |
| Other current non-financial assets | 295.1 | 262.2 | 32.9 |
| thereof VAT receivables | 157.3 | 108.4 | 48.9 |
| thereof right to repossess goods | 75.9 | 104.8 | -28.8 |
| thereof deferred items | 15.3 | 12.5 | 2.8 |
| thereof other financial assets | 46.6 | 36.5 | 10.1 |

Zalando's investments in term deposits decreased by EUR 25.0m due to termination of the underlying contract. The right to repossess goods decreased by EUR 28.8m in comparison to the prior year due to a lower average return volume and a faster customer return rate in 2020. The increase in VAT receivables (2020: EUR 48.9m) resulted from an increased business volume as well as ongoing investments in our new fulfillment centers (see section 3.5.7 (12.)).

(19.) Cash and Cash Equivalents

Zalando's cash and cash equivalents comprise the categories presented in the following table. The short-term deposits presented have original terms to maturity of up to three months. Cash and cash equivalents increased by EUR 1,667.5m in comparison to the prior year resulting from a cash injection from convertible bonds of EUR 994.0m in Q3 2020 and the revolving credit facility of EUR 375.0m, which Zalando made use of in Q1 2020.

Cash and Cash Equivalents

| IN EUR M | Dec 31, 2020 | Dec 31, 2019 |
|--------------------------|----------------|--------------|
| Money market funds | 1,117.7 | 121.9 |
| Cash in bank | 1,077.8 | 794.4 |
| Short-term bank deposits | 448.3 | 60.0 |
| Cash on hand | 0.2 | 0.2 |
| Total | 2,644.0 | 976.5 |

(20.) Equity

The parent company issued 255,523,307 ordinary bearer no-par value shares (Stückaktien auf den Inhaber) as of the reporting date (prior year: 252,848,768). Each share represents an imputed share of issued capital of EUR 1.00 and entitles the bearer to one vote at the company's annual general meeting.

During fiscal year 2020, the issued capital of the parent company was increased by a total of EUR 2.4m to EUR 255.5m by making partial use conditional capital 2013, 2014 and 2016. The capital contribution for the newly issued shares is fully paid in.

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

Authorized and Conditional Capital

| | Amount in EUR m | Number of no-par value shares | Purpose |
|--------------------------|--------------------|-------------------------------------|---|
| Authorized capital 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 |

The capital reserve amounts to EUR 1,429.0m (prior year: EUR 1,200.5m). In the reporting year, contributions were made under the share-based payment plans in accordance with IFRS 2 of EUR 50.3m (prior year: EUR 46.0m). The contributions made for the newly issued shares increased the capital reserve by EUR 24.7m. Furthermore, the capital reserve was affected by the transfer of treasury shares to employees (EUR 26.0m), deferred taxes from share-based payments (EUR 33.3m) and the issuance of the convertible bonds (EUR 94.2m).

In 2020, ZALANDO SE repurchased no treasury shares. Total repurchased shares per December 31, 2020, amount to a notional share in share capital of EUR 2,125,734 (prior year: 4,167,899) and thus to 0.83% (prior year: 1.65%) of share capital. The treasury shares shall be used to serve employee stock option plans. In 2020, 2,042,165 treasury shares were distributed to employees in the context of employee stock option plans.

Other reserves include effects from cash flow hedging of EUR 9.7m (prior year: EUR 21.9m) and deferred taxes on the resulting measurement differences of EUR 3.0m (prior year: EUR 6.7m). Due to cash flow hedging in the reporting year, an income of EUR 5.4m (prior year: expense of EUR 12.4m) was recycled from other reserves to revenue, and income of EUR 1.7m

was reclassified from other reserves to inventories in accordance with IFRS 9 (prior year: income of EUR 0.2m). Moreover, expenses of EUR 0.0m (prior year: EUR 0.1m) from interest rate hedging were recycled to the financial result in the reporting year.

The retained earnings result from the profit and loss carry forwards of past reporting periods and the profit of the current reporting period.

A non-controlling interest arose from the acquisition and first-time full consolidation of Anatwine Ltd. in 2017. Minority shareholders hold 1.3% (prior year: 1.5%) of the Anatwine shares as of December 31, 2020; the non-controlling interest amounted to EUR -0.2m (prior year: EUR -0.2m).

The development of equity is shown in the statement of changes in equity.

(21.) Share-Based Payments

As of the reporting date, Zalando has various share-based payment awards in place for which expenses amounting to EUR 53.8m (prior year: EUR 46.0m) have been recognized. Of these expenses, an amount of EUR 53.8m (prior year: EUR 46.0m) relates to equity-settled share-based awards. The awards material to our consolidated financial statements are described in detail below. All these awards are equity-settled plans granted to employees and executives in 2020 and prior years. Basic assumption is that the rules of any program apply to all participants equally, however, compliance with the jurisdictions concerned sometimes require minor adjustments for a certain group of participants.

Description of the Management Board Programs

SOP 2011 and SOP 2013

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

The options of SOP 2011 were granted to the members of the Management Board in fiscal year 2011. SOP 2011 consists of options that entitle each member of the Management Board to acquire 1,028,500 new shares in the company. Each option entitles the beneficiary to acquire one share. The exercise price is EUR 5.65 per option. The options granted to the beneficiaries vested in monthly tranches over a seven-year period and became exercisable upon vesting. The last tranche of the SOP 2011 vested in October 2018. The options can be exercised for an unlimited period of time but, until July 27, 2020 only within defined exercise windows, namely within two weeks of 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 annual general meeting until the day of such annual 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 from SOP 2011.

The options of SOP 2013 were granted to the members of the Management Board in fiscal year 2013. SOP 2013 consists of options that entitle each member of the Management Board to acquire 3,272,500 new shares in the company. Each option entitles the beneficiaries to acquire one share. The exercise price is EUR 15.63 per option. The beneficiaries can alternatively request a reduction of the exercise price from EUR 15.63 to EUR 1.00 for all or some of the options already vested. In this case, the number of options is reduced so that it leaves the beneficiary at the time of the request neither better nor worse off economically. The options granted to the beneficiaries vested in monthly tranches over a five-year period. The last tranche of SOP 2013 vested in November 2018. The exercise of the options 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. By 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 black-out period, namely the period from the 45th calendar day prior to the company's annual general meeting until the day of such annual 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.

LTI 2018

Each member of the Management Board was granted 1,750,000 options under the LTI 2018 which forms part of the new remuneration system effective since December 1, 2018. Each option relates to one share in the company and has an exercise price of EUR 47.44. The options vest in quarterly tranches over a five-year period. The options can only be exercised after the expiry of a waiting period of 4 years commencing on the effective date December 1, 2018, for 57% of the options and 4.75 years for the remaining 43% of the options. The performance period relevant for the achievement of the performance criterion equals the waiting period (i.e. 4 and 4.75 years) for the respective options. The percentage of vested options of a beneficiary which can be exercised depends on the extent to which a targeted compound annual growth rate (CAGR) of at least 15% has been achieved during the performance period. 100% of the vested options can be exercised if the CAGR equals or exceeds 15%. Otherwise, depending on the extent of the shortfall of the actual CAGR from such target CAGR, the percentage of the relevant vested options which can be exercised decreases in steps with each 0.5ppt of CAGR below 15% resulting in a 10% pay-out reduction, the last step being (< 11.0% and ≥ 10.0%); at a CAGR below 10%, payout is zero. The beneficiary is entitled to the amount by which the share price at the exercise date exceeds the exercise price of EUR 47.44. This amount is capped at EUR 97.14 per option.

LTI 2019 and restated LTI 2019

With effect as of April 2019 Zalando expanded its Management Board by two new members, namely David Schröder and Jim Freeman. Each new member of the Management Board was granted options under a new long-term incentive plan called LTI 2019. In total 400,000 Type A, 110,000 Type B and 274,000 Type C options were granted. Each option relates to one share in the company and has an exercise price of EUR 29.84 (Type A options) or EUR 1 (Type B and C options). The options vest in quarterly tranches over a four-year period. The options can only be exercised after the expiry of waiting periods of 1, 2, 3 or 4 years, commencing on the effective date April 1, 2019. The performance period relevant for the achievement of the performance criterion equals the waiting period for the respective options. The percentage of vested options of a beneficiary which can be exercised depends on the extent to which a targeted compound annual growth rate (CAGR) of at least 15% has been achieved during the performance period. For Type A and B Options, 100% of the vested options can be exercised if the CAGR equals or exceeds 15% during the relevant performance period. 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 10%, payout is zero. In addition, the number of exercisable Type A and B options of a certain performance period is limited to a number that would together with the already exercisable options of previous performance periods add up to a total number of exercisable options that would have become exercisable if the performance criterion were applied to the total number of vested options at the relevant point in time. However, this adjustment of the number of exercisable options cannot lead to the number of exercisable options for a certain performance period below zero. For Type C options, 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%, payout is 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.

For all types of options, non-performing options with a waiting period of less than four years may become exercisable at a later stage, provided the relevant CAGR increases. The beneficiary is entitled to the amount by which Zalando's share price as per the exercise date exceeds the respective exercise price (settlement value). This amount is limited to a maximum of EUR 99.00 per option for Type B and C options and EUR 70.16 for Type A options.

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, applicable to Jim Freeman, have been amended (the "restated LTI 2019") and options vested until March 31, 2020 have been cancelled 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 for remaining options under the restated LTI 2019.

Under the restated LTI 2019, the 17,125 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, starting end of June 2020 until end of March 2023. Vested options can only be exercised after the expiry of the relevant vesting period as described above. As of the end of each calendar year after the expiry of the waiting period all unexercised options will be forfeited without compensation.

Management Programs

SOP 2014

SOP 2014 entitles senior members of the Management Team as well as selected key employees to subscribe to a total of 6,732,000 shares in ZALANDO SE. The options vested provided that the recipient has worked for the company for the period specified within a tranche.

Vested options can only be exercised if the performance conditions contained in the SOP 2014 have been fulfilled and the waiting period has elapsed. The exercise price is EUR 17.72, EUR 22.79, EUR 25.03, EUR 29.92, EUR 30.48 and EUR 31.60 per option based on the respective grant date of the options. Each option entitles the recipient to acquire one share. The options vest in 16 tranches over a period of four years. The performance condition stipulates that Zalando must achieve a certain level of revenue growth over a period of four years, starting on the grant date. If the contractual revenue target is not achieved, the options are forfeited without compensation. The four-year waiting period commences on the grant date. The recipients can exercise vested options after the waiting period over a period of five years. 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 2014 have been amended as follows: from that date, the options can now be exercised at any time outside of any blackout period, namely the period from the 45th calendar day prior to the company's annual general meeting until the day of such annual 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 recipients have no claim to cash payment.

VSOP 2017

VSOP 2017 entitles selected senior members of the Management Team to subscribe to virtual stock options in ZALANDO SE. The virtual stock options were issued at an exercise price of EUR 25.00 (Type A options) or at EUR 50.00 (Type B options). In fiscal year 2017, a total of 270,000 A options and 600,000 B options were issued. For each option that is exercised, the holder receives a cash settlement of an amount equal to the closing price of the share of the company listed on the Frankfurt Stock Exchange on the date on which notification is received that the option is being exercised less the exercise price. The company has the right to fulfill the cash settlement obligations toward the holder of the option by delivering shares instead. The options vest provided the recipient has worked for the company for the period specified within a tranche. Vested options can only be exercised if the performance target defined in VSOP 2017 has been fulfilled and the waiting period has elapsed. The options vest in 12 tranches over a period of three years. The performance target stipulates that Zalando must achieve a certain level of revenue growth over a period of three years, starting on the grant date. If the revenue target is not achieved, the options are forfeited without compensation. The three-year waiting period commences on the grant date. At the end of the waiting period, the holders of exercisable options can exercise them at any time over the following two years, except during blackout periods.

VSOP 2018 and restated VSOP 2018

VSOP 2018 was granted to selected senior members of the Management Team in 2018. In total 750,000 virtual stock options were granted. The virtual stock options break down into 500,000 ITM (in the money) virtual stock options, which have an exercise price of EUR 29.84 and 250,000 OTM (out of the money) virtual stock options which have an exercise price of EUR 57.38. For each option that is exercised, the holder receives a cash settlement of an amount equal to the closing price of the share of the company listed on the Frankfurt Stock Exchange on the date on which notification is received that the option is being exercised less the exercise price. The company has the right to fulfill its cash settlement obligations toward the holder of the option by delivering shares instead. The options vest provided that the recipient has worked for the company for the period specified within a tranche. Vested options can only be exercised if the performance target defined in VSOP 2018 has been fulfilled and the waiting periods have elapsed. The options vest in 20 tranches over a period of five years. The performance target stipulates that Zalando must achieve a certain level of growth during the waiting periods, starting on the grant date. If the performance target is not achieved, the options are forfeited without replacement. The waiting periods are two to five years commencing on the grant date. At the end of the respective waiting period, the holder of exercisable options can exercise them at any time over the following two to three years, except during certain blackout-periods.

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 will indemnify 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 ITM virtual stock options’ expiry date is the last day of the calendar year in which the respective lock-up period for such shares expires.

EIP

The EIP is a yearly equity award granted to managing directors of subsidiaries, managerial staff members and selected key employees of the group. The EIP awards were granted in July (as a full annual grant) and in January (as a pro rata annual grant) of each year. The first EIP award was granted in July 2016. The options issued under EIP entitle the participants to receive an annual mix (portfolio) of performance shares and performance options depending on the total amount in euros granted to each participant (the annual grant). The participant can decide how to split the annual grant between performance shares and performance options and regarding the performance options, whether they will be granted as ATM (at the money) performance options or OTM (out of the money) performance options. The swap ratio is based on the fair value measurement of the performance shares and options. Performance shares have an exercise price of EUR 1.00, ATM performance options have an exercise price equal to the volume-weighted average stock exchange price on the last 60 trading days prior to the grant date (base price), and the OTM performance options have an exercise price of 120% of the base price. The portfolios vest provided the recipient has worked for the company for the period specified within a tranche. Vested portfolios can only be exercised if the performance target defined in EIP has been fulfilled and the waiting period has elapsed. The performance condition stipulates that Zalando must achieve a certain level of growth over a period of four years, starting on the grant date. If the contractual performance target is not achieved, the portfolio is forfeited without replacement. The four-year waiting period commences on the grant date. The recipients can exercise vested portfolios after the waiting period of four years, except during blackout periods. The management of Zalando aims to settle the EIP in equity. As of July 2019, the EIP was replaced by the ZOP (Zalando Ownership Plan).

ZOP

The ZOP (Zalando Ownership Plan) was introduced in July 2019 to replace the EIP going forward. Under the ZOP, at the end of each quarter of employment, the participants are granted fully vested equity in the form of stock options as a reward for such quarter. Performance options can only be exercised after a waiting period of two years commencing on the grant date. The annual target equity amount of each participant is divided into quarterly tranches and each tranche gets converted into a specific number of performance shares (options with a strike of EUR 1.00) and performance options (options with strike price equal to the closing price of the Zalando stock on the grant date (grant share price)). The participants can choose how to split the quarterly tranches into performance shares and performance options. The conversion into stock options is based on different conversion factors for performance shares (1.05) and performance options (0.3). At the end of the two-year waiting period applicable to performance shares of the respective tranche, beneficiaries can exercise their stock options at any time over a period of three years except during blackout periods. Performance options can only be exercised within three years following the grant date.

Other Programs

Zalando has a company-wide Top Performance Options Plan in place and in 2020 introduced the new company wide share benefit plan for employees called Zalando Share Plan. Zalando Share Plan replaces the former programs Share Bonus and Share Invest.

Zalando Share Plan

Zalando Share Plan offers the opportunity for self-financed acquisition of shares by the participants (investment shares) with a subsequent issue of matching shares by the company as well as procedures for the granting of bonus shares in the company without cash consideration.

Top Performance Options Plan

The purpose of the yearly Top Performance Options Plan is to reward employees who have delivered excellent performance during the performance year. One top performance option entitles the participant to receive one share. After a lock-up period of one year after grant date, the options can be exercised during a period of one year except during blackout periods.

Development of Outstanding Options

| | SOP 2011 | | SOP 2013 | | SOP 2014 | | EIP | |
|--|------------------|--|------------------|--|------------------|--|------------------|--|
| | Number | Weighted average exercise price (in EUR) | Number | Weighted average exercise price (in EUR) | Number | Weighted average exercise price (in EUR) | Number | Weighted average exercise price (in EUR) |
| Outstanding as of Jan 1, 2019 | 1,346,400 | 5.65 | 9,445,771 | 15.37 | 4,119,559 | 20.15 | 3,470,790 | 36.07 |
| Granted during the year | 0 | - | 0 | - | 0 | - | 314,757 | 29.09 |
| Forfeited during the year | 0 | - | 0 | - | 0 | - | 156,798 | 40.18 |
| Exercised during the year | 0 | - | 170,571 | - | 2,004,805 | 19.01 | 0 | - |
| Outstanding as of Dec 31, 2019 | 1,346,400 | 5.65 | 9,275,200 | 15.63 | 2,114,754 | 21.23 | 3,628,749 | 35.31 |
| Exercisable as of Dec 31, 2019 | 1,346,400 | 5.65 | 9,275,200 | 15.63 | 1,743,132 | 21.23 | 0 | - |
| Outstanding as of Jan 1, 2020 | 1,346,400 | 5.65 | 9,275,200 | 15.63 | 2,114,754 | 21.23 | 3,628,749 | 35.31 |
| Granted during the year | 0 | - | 0 | - | 0 | - | 0 | - |
| Forfeited during the year | 0 | - | 0 | - | 0 | - | 0 | - |
| Canceled during the year | 0 | - | 0 | - | 0 | - | 0 | - |
| Exercised during the year | 1,271,600 | 5.65 | 800,000 | 1.00 | 1,308,105 | 20.07 | 465,554 | 24.91 |
| Outstanding as of Dec 31, 2020 | 74,800 | 5.65 | 6,779,835 | 1.00 | 806,649 | 23.12 | 3,163,195 | 36.88 |
| Exercisable as of Dec 31, 2020 | 74,800 | 5.65 | 6,779,835 | 1.00 | 806,649 | 23.12 | 305,680 | 28.74 |
| Weighted average remaining contractual life of outstanding options (in years) | | | | | | | | |
| As of Dec 31, 2019 | Unlimited | | 3.0 | | 4.0 | | 5.7 | |
| As of Dec 31, 2020 | Unlimited | | 2.0 | | 3.2 | | 4.9 | |
| Weighted average share price for options exercised (in EUR) | | | | | | | | |
| 2019 | - | | 40.28 | | 40.58 | | - | |
| 2020 | 69.22 | | 67.52 | | 55.62 | | 67.5 | |

*) For 542,300 options the contractually agreed provision to reduce the exercise price to EUR 1.00 was used in 2018. This reduced the number of options to 370,571, of which 200,000 were exercised at EUR 1.00 in 2018 and 170,571 in 2019. In 2020, the contractually agreed provision to reduce the exercise price to EUR 1.00 was used for all remaining options.

| VSOP 2017 | | VSOP 2018 | | LTI 2018 | | LTI 2019 | | ZOP | |
|----------------|--|----------------|--|------------------|--|----------------|--|----------------|--|
| Number | Weighted average exercise price (in EUR) | Number | Weighted average exercise price (in EUR) | Number | Weighted average exercise price (in EUR) | Number | Weighted average exercise price (in EUR) | Number | Weighted average exercise price (in EUR) |
| 870,000 | 42.24 | 750,000 | 39.02 | 5,250,000 | 47.44 | 0 | - | 0 | - |
| 0 | - | 0 | - | 0 | - | 784,000 | 15.71 | 353,565 | 14.84 |
| 120,834 | 42.24 | 250,000 | 57.38 | 0 | - | 0 | - | 0 | - |
| 0 | - | 0 | - | 0 | - | 0 | - | 0 | - |
| 749,166 | 42.24 | 500,000 | 29.84 | 5,250,000 | 47.44 | 784,000 | 15.71 | 353,565 | 14.84 |
| 0 | - | 0 | - | 0 | - | 0 | - | 0 | - |
| 749,166 | 42.24 | 500,000 | 29.84 | 5,250,000 | 47.44 | 784,000 | 15.71 | 353,565 | 14.84 |
| 0 | - | 0 | - | 0 | - | 0 | - | 650,999 | 26.46 |
| 0 | - | 0 | - | 0 | - | 0 | - | 0 | - |
| 3,936 | 35.47 | 254,026 | 29.84 | 78,051 | 47.44 | 77,004 | 2.76 | 28,611 | 18.60 |
| 530,230 | 39.15 | 0 | - | 0 | - | 24,463 | 1.00 | 61,053 | 1.00 |
| 215,000 | 50.00 | 245,974 | 29.84 | 5,171,949 | 47.44 | 682,533 | 17.79 | 914,900 | 23.84 |
| 215,000 | 50.00 | 0 | - | 0 | - | 0 | - | 93,871 | 1.07 |
| 2.5 | | 3.8 | | 6.8 | | 6.3 | | 3.8 | |
| 1.5 | | 1.8 | | 5.8 | | 3.9 | | 4.1 | |
| - | | - | | - | | - | | - | |
| 73.3 | | - | | - | | 79.96 | | 74.5 | |

Valuation of Newly Granted Options

The fair values of the options newly granted during the current and the prior year were calculated using the input parameters shown in the table below. The fair value comprises the intrinsic value and the time value multiplied by the probability that the performance target will be reached.

Valuation Parameters

| Valuation parameters 2020 | EIP | LTI 2019 | ZOP |
|---|-----|----------|----------|
| Option pricing model | - | - | Binomial |
| Weighted average share price (in EUR) | - | - | 53.8 |
| Weighted average exercise price (in EUR) | - | - | 26.5 |
| Expected volatility (%) | - | - | 35.9 |
| Expected dividends (%) | - | - | 0.0 |
| Expected life of option (years) | - | - | - |
| Risk-free interest rate for equivalent maturities (%) | - | - | -0.7 |
| Probability of reaching the performance target (%) | - | - | n.a. |
| Weighted average fair value of option (in EUR) | - | - | 31.2 |

Valuation Parameters

| Valuation parameters 2019 | EIP | LTI 2019 | ZOP |
|---|---------------|----------|----------|
| Option pricing model | Black-Scholes | Binomial | Binomial |
| Weighted average share price (in EUR) | 22.4 | 26.2 | 43.5 |
| Weighted average exercise price (in EUR) | 29.1 | 24.1 | 14.8 |
| Expected volatility (%) | 34.7 | 35.0 | 37.0 |
| Expected dividends (%) | 0.0 | 0.0 | 0.0 |
| Expected life of option (years) | 4.2 | - | - |
| Risk-free interest rate for equivalent maturities (%) | -0.4 | -0.2 | -0.6 |
| Probability of reaching the performance target (%) | 90.5 | 89.2 | n.a. |
| Weighted average fair value of option (in EUR) | 17.9 | 16.3 | 32.8 |

The parameters used in the valuation were determined as follows: the share price was set with reference to the trading price of the Zalando share. The expected volatility used in the model is based on the historical share price of the Zalando share. A best estimate was made for the expected life of the option reflecting both, the contractual term and the expected, or historical exercise behavior. The risk-free interest rate for equivalent maturities was calculated using the Svensson method. The probability that the performance target will be reached was determined based on market assumptions around future performance.

(22.) Provisions

Provisions developed as follows in the reporting year:

Development of Provisions

| IN EUR M | Jan 1, 2020 | Usage | Addition | Release | Interest expense | Dec 31, 2020 |
|-------------------------|-------------|------------|------------|------------|------------------|--------------|
| Restoration obligations | 41.6 | 1.3 | 6.9 | 0.8 | 0.2 | 46.6 |
| Other provisions | 4.2 | 3.1 | 0.5 | 0.1 | 0.0 | 1.6 |
| Total | 45.8 | 4.4 | 7.4 | 0.9 | 0.2 | 48.1 |

Provisions developed as follows in the prior year:

Development of Provisions

| IN EUR M | Jan 1, 2019 | Usage | Addition | Release | Interest expense | Dec 31, 2019 |
|-------------------------|-------------|------------|-------------|------------|------------------|--------------|
| Restoration obligations | 33.1 | 0.2 | 8.9 | 0.5 | 0.3 | 41.6 |
| Other provisions | 1.0 | 1.2 | 4.4 | 0.0 | 0.0 | 4.2 |
| Total | 34.1 | 1.4 | 13.3 | 0.5 | 0.3 | 45.8 |

The provisions for restoration obligations exclusively related to leasehold improvements and were mainly increased by warehouses in Italy and Poland. Other provisions pertain to provisions for retention obligations, onerous contracts and provisions for returns.

The following table shows the maturities of the provisions at the end of fiscal year 2020:

Maturity of Provisions

| IN EUR M | Due in | | | Total |
|-------------------------|------------------|-------------|-------------------|-------------|
| | Less than 1 year | 1 – 5 years | More than 5 years | |
| Restoration obligations | 0.2 | 4.6 | 41.8 | 46.6 |
| Other provisions | 0.5 | 0.8 | 0.3 | 1.6 |
| Total | 0.7 | 5.4 | 42.1 | 48.1 |

The following table shows the maturities of the provisions at the end of fiscal year 2019:

Maturity of Provisions

| IN EUR M | Due in | | | Total |
|-------------------------|------------------|-------------|-------------------|-------------|
| | Less than 1 year | 1 – 5 years | More than 5 years | |
| Restoration obligations | 0.1 | 2.3 | 39.2 | 41.6 |
| Other provisions | 3.2 | 0.8 | 0.3 | 4.2 |
| Total | 3.4 | 3.0 | 39.5 | 45.8 |

(23.) Trade Payables and Similar Liabilities and Prepayments Received

Trade payables and similar liabilities rose by EUR 342.2m to EUR 2,050.5m. The increase is largely due to deliveries of merchandise in light of the higher business volume.

Under reverse factoring agreements, suppliers' claims against Zalando totaling EUR 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.

Trade payables contain liabilities denominated in foreign currency equivalent to EUR 46.8m as of the reporting date (prior year: EUR 46.5m).

Prepayments received pertain to advance payments received from customers for orders.

(24.) Other Current Financial Liabilities and Other Current Non-Financial Liabilities

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

Other Current Financial and Non-Financial Liabilities

| IN EUR M | Dec 31, 2020 | Dec 31, 2019 | Change |
|--|--------------|--------------|-------------|
| Other current financial liabilities | 145.6 | 128.2 | 17.4 |
| thereof obligations to reimburse customers for returns | 89.3 | 79.2 | 10.0 |
| thereof derivative financial instruments | 33.8 | 29.0 | 4.8 |
| thereof debtors with credit balances | 12.2 | 12.9 | -0.8 |
| thereof others | 10.4 | 7.0 | 3.3 |
| Other current non-financial liabilities | 234.8 | 143.4 | 91.4 |
| thereof VAT liabilities | 180.4 | 82.6 | 97.8 |
| thereof liabilities from gift vouchers | 41.2 | 30.7 | 10.5 |
| thereof liabilities from wage and salary | 24.4 | 28.7 | -4.3 |
| thereof others | -11.1 | 1.4 | -12.5 |

Zalando's obligations to reimburse customers for returns increased by EUR 10.0m, largely due to the higher sales volume in the reporting period. The changes in derivative financial instruments resulted from changes in foreign exchange rates as well as slightly increased hedge volume (see also section 3.5.7 (28.)). The increase in VAT liabilities and liabilities from gift vouchers is predominantly caused by the increased business volume. Liabilities from the sale of gift vouchers are recognized at the value of the anticipated utilization.

(25.) Borrowings and convertible bonds

Borrowings

Current borrowings increased by EUR 374.9m to EUR 377.7m as of December 31, 2020. In Q1 2020, Zalando drew its revolving credit facility to strengthen the liquidity of the group during the first wave of lockdown measures in the coronavirus pandemic. When Zalando made use of its revolving credit facility, the amount of EUR 375.0m was recognized under non-current borrowings. At the end of the reporting period 2020, it was shifted from non-current to current borrowings in line with the aim to pay off the credit line at the beginning of 2021. Borrowings are due to banks. For more information, please refer to section 3.5.8 (1.).

Convertible Bonds

On August 6, 2020, Zalando issued two tranches ("Tranche A" and "Tranche B") of unsubordinated, unsecured convertible bonds with an aggregate principal amount of EUR 1,000.0m and each with a principal amount of EUR 500.0m. Tranche A was placed at a price of 100.88%, with an annually payable coupon of 0.050% per annum and a maturity of five years. Tranche B was priced at 100.00%, with an annually payable coupon of 0.625% per annum and a maturity of seven years. The tranches are divided into 10,000 bonds of EUR 100,000 each.

Zalando may redeem all, but not some only, of the outstanding bonds at their principal amount plus accrued interest with effect (i) on or after August 27, 2023 (Tranche A) and on or after August 27, 2025 (Tranche B), respectively, if the price of Zalando's share is equal to or exceeds 130% (Tranche A) and 150% (Tranche B), respectively, of the prevailing conversion price within a certain period, or (ii) if less than 15% of the aggregate principal amount of the bonds of the relevant tranche originally issued are outstanding. Bondholders do have the right to declare all or some only of their bonds still not converted or redeemed to be due in the case an acquisition of control occurs. An acquisition of control is an event where an investor indirectly or directly gains such a number of shares to control at least 30% of the voting rights of Zalando. The bonds for which this put right is exercised are redeemed at their principal amount plus accrued interest on the date of the acquisition of control.

The bonds are initially convertible into approximately 11.1m new or existing no-par value ordinary bearer shares of Zalando. The initial conversion price is set at EUR 87.6375 (Tranche A) and EUR 92.2500 (Tranche B), which represents a conversion premium of 42.5% and 50.0% above the reference share price of EUR 61.5. The conversion price might change based on typical antidilution clauses. Unless previously converted, redeemed or repurchased and canceled, the bonds of each tranche will be redeemed at their principal amount at their respective maturity.

The bonds were offered by way of an accelerated bookbuilding procedure to institutional investors outside specific jurisdictions in which offers or sales of the bonds would be prohibited by applicable law. Pre-emptive rights of existing shareholders of Zalando to subscribe for the bonds were excluded. The bonds are traded on the open market segment of the Frankfurt Stock Exchange.

Zalando received aggregate gross proceeds of EUR 1,004.4m from the issue of the two tranches of the bonds (see section 3.5.7 (26.)).

In accordance with IAS 32, Zalando has evaluated whether the convertible bonds are compound financial instruments. The conversion right included was identified as an equity instrument, which has to be recognized separately from the financial liability. The liability component is initially measured at fair value less directly attributable transaction costs, using the interest and principal payments discounted with a risk-adjusted interest rate of a comparable debt instrument without a conversion right. At issue an amount of EUR 441.3m (Tranche A) and EUR 423.7m (Tranche B) was recognized within convertible bonds. The liability is subsequently measured at amortized cost. The difference between the initial measurement and the principal amount will be recognized as interest expenses over the lifetime of the bonds using the effective interest method.

The equity component is initially measured at the residual value resulting from deduction of the fair value of the liability component from the fair value of the compound instrument as a whole, i.e. the fair value of the proceeds received, less directly attributable transaction costs. This leads to an initial measurement of EUR 57.9m (Tranche A) and EUR 71.2m (Tranche B) presented within capital reserves. From these amounts deferred tax liabilities of EUR 14.6m (Tranche A) and EUR 20.1m (Tranche B) were deducted initially (see section 3.5.7 (27.)). The equity component is not remeasured subsequently.

As of the reporting date December 31, 2020, an amount of EUR 445.9m (Tranche A) and EUR 427.8m (Tranche B) is presented under convertible bonds. Accrued interests of EUR 0.1m (Tranche A) and EUR 1.3m (Tranche B) are presented within other current financial liabilities.

(26.) Notes to the Statement of Cash Flows

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 capital expenditures 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 237.8m from EUR 41.6m to EUR 279.3m 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: 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.

Changes in borrowings impacted the statement of cash flows and the statement of financial position as follows:

Reconciliation of Liabilities Arising from Financing Activities 2020

| IN EUR M | Carrying amount as of Dec 31, 2019 | Cash flows | Non-cash flow changes | Carrying amount as of Dec 31, 2020 |
|------------------------|------------------------------------|------------|-----------------------|------------------------------------|
| Non-current borrowings | 484.1 | 864.9 | -32.3 | 1,316.7 |
| Current borrowings | 70.8 | 293.2 | 87.4 | 451.4 |

Reconciliation of Liabilities Arising from Financing Activities 2019

| IN EUR M | Carrying amount as of Dec 31, 2018 | Cash flows | Non-cash flow changes | Carrying amount as of Dec 31, 2019 |
|------------------------|------------------------------------|------------|-----------------------|------------------------------------|
| Non-current borrowings | 5.6 | 0.0 | 478.6 | 484.1 |
| Current borrowings | 2.8 | -69.5 | 137.4 | 70.8 |

(27.) Deferred Taxes

Deferred tax assets and liabilities recognized as of the reporting dates of the reporting and comparative period 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 | 0.7 | 0.2 | -36.8 | -29.0 | -36.1 | -28.8 |
| Property, plant and equipment | 1.2 | 1.5 | -139.4 | -153.2 | -138.2 | -151.7 |
| Inventories | 0.1 | 0.0 | -8.1 | -7.9 | -8.0 | -7.9 |
| Trade and other receivables | 6.0 | 0.8 | -15.2 | -7.8 | -9.2 | -7.0 |
| Provisions | 12.5 | 9.3 | 0.0 | 0.0 | 12.5 | 9.3 |
| Convertible bonds | 0.6 | 0.0 | -38.8 | 0.0 | -38.2 | 0.0 |
| Other financial and non-financial liabilities | 156.5 | 167.6 | -3.8 | -1.4 | 152.7 | 166.2 |
| Share-based payments | 54.4 | 16.9 | 0.0 | 0.0 | 54.4 | 16.9 |
| Unused tax losses, tax credits | 6.3 | 1.5 | 0.0 | 0.0 | 6.3 | 1.5 |
| Total | 238.3 | 197.8 | -242.1 | -199.3 | -3.8 | -1.5 |
| Netting | -222.9 | -188.6 | 222.9 | 188.6 | 0.0 | 0.0 |
| Total recognized deferred tax assets and liabilities | 15.4 | 9.2 | -19.2 | -10.7 | -3.8 | -1.5 |

The increase in deferred tax assets is mainly caused by options granted under Zalando's share-based payment programs. In contrast to the accounting treatment under IFRS, expenses from these share-based payments are only tax deductible when the options are exercised by the plan participants, which gives rise to a taxable temporary difference. The corresponding taxable temporary difference (deductible amount) has been determined based on the difference between the share price at the reporting date and the exercise price of the options. Due to the strong climb of Zalando's share price, the deferred tax assets recognised on these programs have also risen sharply (prior year: EUR 37.5m lower). Because the deductible amount, depends, among other things, on the share price at the time the options are exercised, the amount recognized as a deferred tax asset is an estimate and may change in the future. At the same time deferred tax liabilities increased significantly. In Q3 Zalando placed two tranches of convertible bonds which led to the recognition of net deferred tax liabilities of EUR 38.2m. Additionally, Zalando recognized a deferred tax liability of EUR 6.1m regarding the acquired Software and a deferred tax asset of EUR 1.3m relating to the carry forward of unused tax losses of Fision (see section 3.5.8 (5.)).

The simultaneous increase in deferred tax assets caused by the share-based payment programs and deferred tax liabilities caused by the convertible bonds is also the main reason for the increase in the netting effect.

Due to the application of IAS 12.68C in connection with deferred tax assets on share-based payment programmes, an amount of EUR 33.3m was recognized directly in equity. A reduction in equity, in contrast, resulted from the recognition of deferred tax liabilities on the convertible bonds. As a result of the recognition of deferred tax liabilities directly in equity, equity decreased by EUR 34.9m. Furthermore, changes in the fair values of hedging derivatives (cash flow hedges) in equity had an equity-decreasing effect from deferred taxes, which are included in other comprehensive income. The corresponding equity position decreased from EUR 6.7m in the prior year to EUR 3.0m in the reporting period.

In the reporting period, deferred tax assets on unused tax losses and tax credits relate to foreign subsidiaries in the amount of EUR 4.2m (prior year EUR 0.8m). The amounts recognized are based on the tax results expected in the planning period.

(28.) Financial Instruments

Carrying Amounts of Financial Assets / Liabilities and Their Fair Values 2020

| IN EUR M | Category pursuant to IFRS 9* | Amount recognized in the statement of financial position pursuant to IFRS 9 | | | | |
|--|------------------------------|---|----------------|--|------------------------------------|-------------------------------|
| | | Carrying amount as of Dec 31, 2020 | Amortized cost | Fair value not through profit and loss | Fair value through profit and loss | Fair value as of Dec 31, 2020 |
| Assets | | | | | | |
| Cash and cash equivalents | AC | 2,644.0 | 2,644.0 | - | - | - |
| Trade and other receivables | AC | 602.5 | 602.5 | - | - | - |
| Other financial assets | AC | 14.6 | 14.6 | - | - | - |
| Derivative financial instruments designated as hedging instruments | n.a. | 21.1 | - | 21.1 | - | 21.1 |
| Other derivative financial instruments | FVtPL | 0.3 | - | - | 0.3 | 0.3 |
| Corporate investments | FVtPL | 7.9 | - | - | 7.9 | 7.9 |
| Liabilities | | | | | | |
| Trade payables and similar liabilities | FLAC | 2,050.5 | 2,050.5 | - | - | - |
| Financial liabilities | FLAC | 377.7 | 377.7 | - | - | 377.8 |
| Convertible bonds | FLAC | 873.7 | 873.7 | - | - | 873.7 |
| Other financial liabilities | FLAC | 124.9 | 124.9 | - | - | - |
| Derivative financial instruments designated as hedging instruments | n.a. | 34.3 | - | 32.2 | 2.1 | 34.3 |
| Other derivative financial instruments | FVtPL | 1.8 | - | - | 1.8 | 1.8 |

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

Carrying Amounts of Financial Assets / Liabilities and Their Fair Values 2019

| IN EUR M | Category pursuant to IFRS 9* | Amount recognized in the statement of financial position pursuant to IFRS 9 | | | | |
|--|------------------------------|---|----------------|--|------------------------------------|-------------------------------|
| | | Carrying amount as of Dec 31, 2019 | Amortized cost | Fair value not through profit and loss | Fair value through profit and loss | Fair value as of Dec 31, 2019 |
| Assets | | | | | | |
| Cash and cash equivalents | AC | 976.5 | 976.5 | - | - | - |
| Trade and other receivables | AC | 462.4 | 462.4 | - | - | - |
| Other financial assets | AC | 36.6 | 36.6 | - | - | - |
| Derivative financial instruments designated as hedging instruments | n.a. | 6.6 | - | 4.1 | 2.5 | 6.6 |
| Other derivative financial instruments | FVTPL | 0.5 | - | - | 0.5 | 0.5 |
| Corporate investments | FVTPL | 9.2 | - | - | 9.2 | 9.2 |
| Liabilities | | | | | | |
| Trade payables | FLAC | 1,708.3 | 1,708.3 | - | - | - |
| Financial liabilities | FLAC | 5.6 | 5.6 | - | - | 5.7 |
| Other financial liabilities | FLAC | 100.3 | 100.3 | - | - | - |
| Derivative financial instruments designated as hedging instruments | n.a. | 32.1 | - | 26.0 | 6.1 | 32.1 |
| Other derivative financial instruments | FVTPL | - | - | - | - | - |

*) AC - Amortized Cost
 FLAC - Financial Liabilities measured at Amortized Cost
 FVTPL - at Fair Value through Profit and Loss
 n.a. - not assigned to a category

For short-term positions it was assumed that the carrying amount is a reasonable approximation of fair value. In those cases no fair value was therefore stated in the table above. As of the reporting date, Zalando had forward exchange contracts in Pound sterling, Norwegian kroner, Polish zloty, Swedish kroner, Swiss francs, Czech kroner and US dollars as well as interest rate swaps in euros.

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

Nominal Amounts and Market Values of Derivative Financial Instruments

| | Market value | | | | Nominal value Dec 31, 2019 | Market value Dec 31, 2019 |
|--|-----------------|-----------------|-----------------|-----------------|----------------------------------|---------------------------------|
| | Nominal value | Assets | Liabilities | Total | | |
| | Dec 31, 2020 | Dec 31, 2020 | Dec 31, 2020 | Dec 31, 2020 | | |
| IN EUR M | | | | | | |
| Forward exchange contracts in a hedge relationship | 2,187.9 | 21.1 | 34.4 | -13.4 | 1,768.4 | -25.5 |
| thereof: in cash flow hedge | 2,159.7 | 21.1 | 32.3 | -11.2 | 1,624.1 | -21.9 |
| thereof: in fair value hedge | 28.1 | 0.0 | 2.1 | -2.1 | 144.3 | -3.5 |
| Interest rate swaps in a hedge relationship | 1.6 | 0.0 | 0.0 | -0.0 | 3.3 | -0.1 |
| Freestanding forward exchange contracts | 50.3 | 0.3 | 1.7 | -1.4 | 71.9 | 0.5 |
| Total | 2,239.8 | 21.4 | 36.1 | -14.8 | 1,843.6 | -25.0 |

The nominal amounts correspond to the sum of all the non-netted purchases and sales amounts of the derivative financial transactions. The market values reported correspond to the fair value. The fair values of the derivative financial instruments were calculated without taking into account opposite developments in the value of the hedged items.

The market values of the interest swaps designated to a hedging relationship are reported in the statement of financial position under other current financial liabilities.

The market values of forward exchange contracts designated to a hedging relationship as well as forward exchange contracts that are not designated to a hedging relationship are reported in the statement of financial position under other current or non-current financial assets and liabilities.

If all contractual partners fail to meet their obligations from the forward exchange contracts, the credit risk for the group amounts to EUR 2.3m as of the reporting date (prior year: EUR 0.0m).

The forward exchange contracts in place as of the reporting date have a remaining term of up to 14 months. The nominal value of forward exchange contracts with a term over 12 months is EUR 222.8m. The interest rate swap has a remaining term of 12 months.

In the reporting period, income from fair value measurement of financial instruments designated as a cash flow hedge of EUR 7.2m (prior year: EUR -21.9m) was recognized directly in equity.

The average contract rates per currency of the hedging instruments designated to hedge accounting as of the reporting date are as follows:

Average Contract Rates of the Hedging Instruments

| | CHF | CZK | GBP | NOK | PLN | SEK | USD |
|---|--------|---------|--------|---------|--------|---------|--------|
| Average contract rates as of Dec 31, 2020 | 1.0712 | 26.5772 | 0.8943 | 10.7037 | 4.4762 | 10.6065 | 1.1565 |
| Average contract rates as of Dec 31, 2019 | 1.1117 | 25.7867 | 0.8884 | 10.0627 | 4.3978 | 10.6366 | 1.1551 |

Net Gains and Losses from Financial Assets and Financial Liabilities

The net gains / losses from financial assets and financial liabilities contain effects from the fair value measurement of derivatives that are not designated as a hedge and changes in the fair value of other financial instruments as well as interest payments. In addition, the net gains / losses contain effects from the impairment losses, reversals of impairment losses, derecognition and exchange rate fluctuations of loans and receivables as well as liabilities measured at amortized cost. Allowances according to IFRS 9 were recorded for trade receivables only as the expected credit loss for other financial assets was not material.

Net Gains and Losses from Financial Instruments 2020

| IN EUR M | From interest affecting profit or loss | From subsequent measurement affecting profit or loss | | | From disposal affecting profit or loss | Total 2020 |
|-----------------------------------|--|--|----------------------|--------------|--|--------------|
| | | Fair value adjustment | Currency translation | Allowances | | |
| Assets | | | | | | |
| Amortized costs | -5.5 | 0.0 | -101.5 | -61.9 | 25.6 | -143.3 |
| Fair value through profit or loss | 0.0 | -11.0 | 0.0 | 0.0 | 0.0 | -11.0 |
| Liabilities | | | | | | |
| Amortized cost | -15.7 | 0.0 | 99.2 | 0.0 | 0.0 | 83.5 |
| Total | -21.2 | -11.0 | -2.3 | -61.9 | 25.6 | -70.8 |

Net Gains and Losses from Financial Instruments 2019

| IN EUR M | From subsequent measurement affecting profit or loss | | | | From disposal affecting profit or loss | Total 2019 |
|------------------------------------|--|-----------------------|----------------------|--------------|--|--------------|
| | From interest affecting profit or loss | Fair value adjustment | Currency translation | Allowances | | |
| Assets | | | | | | |
| Amortized costs | -0.7 | 0.0 | 2.4 | -46.6 | -4.5 | -49.4 |
| Fair value through profit or loss* | 0.0 | 1.9 | 0.0 | 0.0 | 0.0 | 1.9 |
| Liabilities | | | | | | |
| Amortized cost | 6.9 | 0.0 | 0.9 | 0.0 | 0.0 | 7.8 |
| Total | 6.2 | 1.9 | 3.3 | -46.6 | -4.5 | -39.7 |

*) Prior-year figures were adjusted.

Changes in the reserve for Cash Flow Hedges 2020

| IN EUR M | Hedge reserve currency risk | Cost of hedging currency risk | Hedge reserve interest rate risk | Total 2020 |
|--|-----------------------------|-------------------------------|----------------------------------|-------------|
| Balance at Jan 1, 2020 | -21.8 | 0.0 | -0.1 | -21.9 |
| Gains or losses from effective hedging relationships | 3.6 | 1.4 | 0.1 | 5.1 |
| Reclassifications due to changes in expectations about the hedged item | -0.9 | 0.2 | 0.0 | -0.7 |
| Reclassifications due to realization of the hedged item | 11.3 | -3.5 | 0.0 | 7.8 |
| Balance at Dec 31, 2020 | -7.8 | -1.9 | 0.0 | -9.7 |

Changes in the reserve for Cash Flow Hedges 2019

| IN EUR M | Hedge reserve currency risk | Cost of hedging currency risk | Hedge reserve interest rate risk | Total 2019 |
|--|-----------------------------|-------------------------------|----------------------------------|--------------|
| Balance at Jan 1, 2019 | -7.1 | 0.0 | -0.2 | -7.2 |
| Gains or losses from effective hedging relationships | -2.7 | 0.0 | 0.1 | -2.6 |
| Reclassifications due to changes in expectations about the hedged item | 0.2 | 0.0 | 0.0 | 0.2 |
| Reclassifications due to realization of the hedged item | -12.2 | 0.0 | -0.1 | -12.3 |
| Balance at Dec 31, 2019 | -21.8 | 0.0 | -0.1 | -21.9 |

Fair Value Hierarchy

As of the reporting date, the group held financial assets and financial liabilities measured at fair value. These financial instruments are classified within a three-level fair value hierarchy.

With regards to financial instruments that are regularly measured at fair value, the group determines whether items are to be reclassified between hierarchy levels. This is determined by reassessing the inputs of the lowest level that is of significance for fair value measurement as of the end of the reporting period.

Level Assignment

| Assets | |
|--|---------|
| Derivative financial instruments designated as hedging instruments | Level 2 |
| Other derivative financial instruments | Level 2 |
| Corporate investments | Level 2 |
| Liabilities | |
| Financial liabilities | Level 2 |
| Convertible bonds | Level 1 |

As in the prior year, hedging instruments used to hedge the foreign exchange risk exposure are measured based on observable spot foreign exchange rates of the European Central Bank and the interest yield curves of the corresponding currencies.

Hedging instruments used to hedge the interest exposure are measured by discounting the future cash flows using a discount rate for instruments of equivalent terms. No other input factors were considered.

Offsetting

For financial assets and liabilities no global netting agreements of the ISDA (International Swaps and Derivatives Association) or any other comparable national framework agreements or similar contracts that lead to an offsetting effect were in place in 2020 and 2019.

3.5.8 Other Notes

(1.) Risks Relating to Financial Instruments and Financial Risk Management

In the course of its ordinary activities, Zalando is exposed to credit risks, liquidity risks and market risks (mainly currency and interest rate risks). The aim of financial risk management is to limit the risks resulting from operating activities through the use of selected derivative and non-derivative hedging instruments. The derivative financial instruments are used in the group solely for the purpose of risk management. Zalando would be exposed to higher financial risks if it did not use these instruments. The group's management is responsible for the management of the risks.

Changes in exchange rates and interest rates can lead to considerable fluctuations in the market values of the derivatives used. These market value fluctuations should therefore not be considered in isolation from the hedged items as derivatives and hedged items form a unit in terms of their offsetting developments in value.

Market Risk

Market risk arises from changes in the fair value of future cash flows from financial instruments due to changes in market prices. Market risks include interest rates, currency and other price risks.

The currency risk can be broken down into two further types of risk: the transaction risk and the translation risk. The translation risk describes the risk of changes in the items in the statement of financial position and income statement of a subsidiary due to exchange rate changes when translating the foreign local financial statements into the group's currency. The changes caused by currency fluctuations from the translation of items in the statement of financial position are presented in equity. Zalando is exposed to translation coming from foreign subsidiaries in the United Kingdom, Poland, Hong Kong and China. Currently Zalando does not hedge the translation risk for these subsidiaries.

The transaction risk relates to the fact that exchange rate fluctuations can lead to changes in value of future foreign currency payments. Zalando operates in different markets and is therefore exposed to foreign currency risk generated from revenues and sourcing transactions in foreign currencies. Forward exchange contracts are used to hedge these activities. For this purpose, plain vanilla OTC derivative financial instruments are concluded and processed in accordance with internal guidelines that set out binding rules for the scope of action and responsibilities as well as reporting and controls. Risk exposure is hedged with a standard layered approach. The economic relationship between the hedged item and the hedging instrument is determined prospectively through critical terms match based on currency, tenor and notional. The hedge ratio is established through internal approval processes and calculated based on outstanding notional volume of foreign exchange forwards in relation to the notional volume of the underlying highly probable forecasted transactions. As of the reporting date, the average monthly hedge ratio for 2020 was in a range between 72.4% and 81.7% (prior year: between 77,2% and 80,6%), depending on the currency. Sources of hedge ineffectiveness can be changes in the forecasted highly probable underlying business transactions.

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

If the euro had appreciated by 5% against the foreign currencies as of December 31, 2020, earnings before taxes would have been EUR 15.8m lower (prior year: EUR 10.3m). If the euro had depreciated 5% compared with the exchange rate as of December 31, 2020, earnings before taxes would have been EUR 17.5m higher (prior year: EUR 11.4m).

The impact on profit or loss by currency breaks down as follows:

Foreign Currency Sensitivity on Profit or Loss 2020

| IN EUR M | Impact on profit or loss | | | | | | | | Total |
|-----------------------------------|--------------------------|----------------|---------------|---------------|----------------|---------------|----------------|---------------|-------|
| | CHF | CZK | DKK | GBP | NOK | PLN | SEK | USD | |
| FX rate as of Dec 31, 2020 | 1.0802 | 26.2420 | 7.4409 | 0.8990 | 10.4703 | 4.5597 | 10.0343 | 1.2271 | |
| 5% increase in FX rate | -2.5 | -0.3 | -2.6 | -1.7 | -0.2 | -6.6 | -1.0 | -0.9 | -15.8 |
| 5% decrease in FX rate | 2.8 | 0.4 | 2.9 | 1.8 | 0.2 | 7.3 | 1.1 | 1.0 | 17.5 |

Foreign Currency Sensitivity on Profit or Loss 2019

| IN EUR M | Impact on profit or loss | | | | | | | | Total |
|-----------------------------------|--------------------------|----------------|---------------|---------------|---------------|---------------|----------------|---------------|-------|
| | CHF | CZK | DKK | GBP | NOK | PLN | SEK | USD | |
| FX rate as of Dec 31, 2019 | 1.0854 | 25.4080 | 7.4715 | 0.8508 | 9.8638 | 4.2568 | 10.4468 | 1.1234 | |
| 5% increase in FX rate | -2.0 | -0.2 | -3.0 | -1.6 | -0.4 | -2.0 | -0.9 | -0.2 | -10.3 |
| 5% decrease in FX rate | 2.2 | 0.2 | 3.4 | 1.8 | 0.4 | 2.2 | 1.0 | 0.3 | 11.4 |

The reserve for derivatives in group equity would have been EUR 102.5m lower (prior year: EUR 57.1m higher) if the euro had appreciated 5% compared with the exchange rate as of December 31, 2020. This reserve would have been EUR 113.3m higher (prior year: EUR 63.1m lower) if the euro had depreciated 5%.

The impact on other comprehensive income by currency breaks down as follows:

Foreign Currency Sensitivity on Other Comprehensive Income 2020

| IN EUR M | Impact on other comprehensive income | | | | | | | Total |
|--------------------------------|--------------------------------------|----------------|---------------|----------------|---------------|----------------|---------------|-------|
| | CHF | CZK | GBP | NOK | PLN | SEK | USD | |
| FX rate as Dec 31, 2020 | 1.0802 | 26.2420 | 0.8990 | 10.4703 | 4.5597 | 10.0343 | 1.2271 | |
| 5% increase in FX rate | -43.9 | -6.5 | 0.9 | -10.6 | -16.0 | -12.5 | 8.9 | -79.7 |
| 5% decrease in FX rate | 48.5 | 7.2 | -1.0 | 11.8 | 17.6 | 13.9 | -9.9 | 88.1 |

Foreign Currency Sensitivity on Other Comprehensive Income 2019

| IN EUR M | Impact on other comprehensive income | | | | | | | Total |
|--------------------------------|--------------------------------------|----------------|---------------|---------------|---------------|----------------|---------------|-------|
| | CHF | CZK | GBP | NOK | PLN | SEK | USD | |
| FX rate as Dec 31, 2019 | 1.0854 | 25.4080 | 0.8508 | 9.8638 | 4.2568 | 10.4468 | 1.1234 | |
| 5% increase in FX rate | 35.6 | 2.1 | -2.5 | 7.8 | 13.0 | 9.2 | -8.1 | 57.1 |
| 5% decrease in FX rate | -39.4 | -2.3 | 2.8 | -8.6 | -14.4 | -10.2 | 9.0 | -63.1 |

The interest rate risk arises from interest rate fluctuations on the earnings, equity or cash flow for the current or future reporting period. Interest rate risks from financial instruments in the group are mainly related to financial liabilities with floating interest rate. This exposure is partly hedged with plain vanilla OTC interest rate swaps. The economic relationship between the hedged item and the hedging instrument is determined prospectively through critical terms match based on interest rate, tenor, notional and reset period. The hedge ratio is established through internal approval processes and calculated based on outstanding notional volume of the interest rate swap's notional in relation to notional volume of loan risk exposure. As of the reporting date, the average hedge ratio for 2020 amounts to 100%.

With a 50 bp decrease in the 3M EURIBOR the interest expense would have been EUR 0.0m higher (prior year: EUR 0.1m higher). A 50 bp increase in the 6M EURIBOR would lead to EUR 0.5m higher (prior year: no effect) interest expenses. Neither an increase in the 3M EURIBOR nor a decrease in the 6M EURIBOR by 50 bp would have led to an impact in 2020 or 2019.

Credit Risk

Credit risk is the risk of a customer or contractual partner defaulting on payment, resulting in the assets, financial assets or receivables reported in the consolidated statement of financial position having to be written down. Credit risks primarily concern trade receivables. The credit risk is provided for by portfolio-based valuation allowances based on historical experience and the maturity profile. Uncollectible receivables are written off in full individually.

There is no significant concentration of credit risk.

In addition, for cash and cash equivalents, there is a credit risk that banks can no longer meet their obligations. The maximum exposure corresponds to the carrying amounts of these financial assets at the end of the respective reporting period. The company addresses this exposure by distributing its derivative financial instruments and cash held at banks over multiple financial institutions with good credit standing and money market funds with an AAA rating (according to Standard & Poor's).

Liquidity Risk

The liquidity risk is defined as a possible lack of cash funds to fulfill the financial obligations of the company. This hazard may arise from insufficient centralization of cash where it is needed, inexact liquidity forecasting or an unbalanced investment strategy for the company's cash reserves.

Zalando manages its exposure to liquidity risk by regularly monitoring liquidity needs through an integrated platform for short-, medium- and long-term forecasting of the cash requirements.

Additionally, the group invests the cash reserves of the company in term deposits and money market instruments and pools the cash balances centrally on a regular basis to ensure cash is located where it is needed.

To reduce the liquidity risk further, Zalando uses reverse factoring as an additional financing source to extend the payment terms with different financial partners and suppliers in order to improve working capital. Under these agreements, the factor purchases the claims held by the respective supplier against Zalando. These are recognized in the consolidated statement of financial position under trade payables and similar liabilities.

There is no significant concentration of liquidity risk.

The tables below show the contractually agreed (undiscounted) interest and principal payments for primary financial liabilities and for derivative financial instruments with their negative fair value. All instruments in the portfolio as of December 31, 2020, and December 31, 2019, and for which payments had already been contractually agreed were included. Planned figures for new future liabilities were not included. The floating-rate interest payments from the financial instruments were determined based on the interest rates most recently fixed before December 31, 2020, and December 31, 2019, respectively. All on-call financial liabilities are always allocated to the earliest possible date.

Payments for Financial Liabilities and Derivative Financial Instruments 2020

| IN EUR M | Carrying amount | Cash flows 2021 | | Cash flows 2022–2025 | | Cash flows 2026 and ff. | |
|--|-----------------|-----------------|----------------|----------------------|--------------|-------------------------|--------------|
| | Dec 31, 2020 | Interest | Repayments | Interest | Repayments | Interest | Repayments |
| Borrowings | 377.7 | 0.9 | 377.7 | 0.0 | 0.0 | 0.0 | 0.0 |
| Convertible bonds | 873.7 | 3.4 | 0.0 | 13.5 | 500.0 | 6.3 | 500.0 |
| Trade payables and similar liabilities | 2,050.5 | 1.7 | 2,036.4 | 0.0 | 0.0 | 0.0 | 0.0 |
| Other financial liabilities | 161.2 | 0.0 | 147.1 | 0.0 | 13.5 | 0.0 | 0.0 |
| thereof from derivatives | 36.1 | 0.0 | 33.8 | 0.0 | 2.4 | 0.0 | 0.0 |
| Total | 3,463.2 | 5.9 | 2,561.2 | 13.5 | 513.5 | 6.3 | 500.0 |

Payments for Financial Liabilities and Derivative Financial Instruments 2019

| IN EUR M | Carrying amount | Cash flows 2020 | | Cash flows 2021–2024 | | Cash flows 2025 and ff. | |
|--|-----------------|-----------------|----------------|----------------------|------------|-------------------------|------------|
| | Dec 31, 2019 | Interest | Repayments | Interest | Repayments | Interest | Repayments |
| Borrowings | 5.6 | 0.1 | 2.8 | 0.1 | 2.7 | 0.0 | 0.0 |
| Trade payables and similar liabilities | 1,708.3 | 1.4 | 1,708.3 | 0.0 | 0.0 | 0.0 | 0.0 |
| Other financial liabilities | 132.4 | 0.1 | 128.2 | 0.1 | 4.2 | 0.0 | 0.0 |
| thereof from derivatives | 32.1 | 0.1 | 29.0 | 0.1 | 3.2 | 0.0 | 0.0 |
| Total | 1,846.3 | 1.6 | 1,839.3 | 0.2 | 7.0 | 0.0 | 0.0 |

There were no breaches of covenants under the revolving credit facility or any other external borrowing in 2020.

Capital Management

The objectives of capital management in the group are short-term solvency and an adequate capital base to finance projected growth while sustainably increasing the business value. This ensures that all group entities can operate on a going concern basis.

Capital management and its objectives and definition are based on key performance indicators derived from the consolidated financial statements in accordance with IFRS. Zalando defines the equity ratio key performance indicator as the ratio of equity to total assets and the net working capital key performance indicator as the sum of inventories and trade receivables less trade payables and similar liabilities. The equity ratio stood at 33.1% as of the reporting date (prior year: 38.9%) and net working capital came to EUR -87.4m as of the reporting date (prior year: EUR -147.7m).

The company achieved the key performance indicator targets set by management during both the 2020 year and in the prior year.

Collateral

Zalando pledged financial assets of EUR 2.5m as collateral in the reporting period (prior year: EUR 2.5m). They mainly relate to collateral in connection with leases. The collateral provided may be drawn by the beneficiaries should the group not be able to fulfill its payment obligations.

(2.) Information about Related Parties

Zalando identified the related parties of ZALANDO SE in accordance with IAS 24. Zalando had transactions with related parties in the reporting period in the ordinary course of business. The transactions were carried out in accordance with the arm's length principle.

Goods and services from related parties give rise to liabilities of EUR 142.1m as of the reporting date (prior year: EUR 135.4m). Of this amount, EUR 142.1m (prior year: EUR 131.2m) is due to a reverse factoring provider on account of reverse factoring agreements between Zalando and related parties. As a result, there were trade payables or similar liabilities due directly to related parties totaling EUR 0.0m (prior year: EUR 4.2m). Furthermore, trade receivables from related parties amount to EUR 0.1m (prior year: EUR 0.3m).

Merchandise of EUR 289.2m was ordered from related parties in the reporting period. The order volume totaled EUR 274.6m in the comparative period of the prior year. In addition, goods totaling EUR 2.8m were sold to related parties (prior year: EUR 3.0m). The cost of services received from related parties came to EUR 0.2m in the reporting period (prior year: EUR 0.2m). Furthermore, Zalando provided services to related parties totaling EUR 30.2m (prior year: EUR 14.1m).

Related parties controlled by ZALANDO SE are presented in the list of shareholdings (see section 3.5.8 (8.)).

The members of the Management Board and Supervisory Board were identified as related parties of Zalando in accordance with the principles contained in IAS 24. The Management Board of ZALANDO SE is made up as follows:

Members of the Management Board

| Management Board | Profession |
|----------------------|--|
| Robert Gentz | Management Board member responsible for marketing and sales as well as human resources |
| David Schneider | Management Board member responsible for the fashion perspective and brand partners |
| Rubin Ritter | Management Board member responsible for strategy and communications |
| James M. Freeman, II | Management Board member responsible for customer experience and technology perspective |
| David Schröder | Management Board member responsible for the financial and operational perspective |

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

Members of the Supervisory Board

| Supervisory Board | Profession held | Member of the Supervisory Board since |
|--|---|---------------------------------------|
| Matti Ahtiainen (member since June 23, 2020) | Employed at Zalando Finland Oy, Helsinki, Finland | June 23, 2020 |
| Kelly Bennett (Deputy Chairperson) | Board member and Executive Advisor | May 22, 2019 |
| Anthony Brew (member until June 23, 2020) | Employed at Zalando Ireland Ltd., Dublin, Ireland | May 23, 2018 |
| Jade Buddenberg (member since June 23, 2020) | Employed at ZALANDO SE, Berlin | June 23, 2020 |
| Jennifer Hyman (member since June 23, 2020) | CEO and Co-Founder of Rent the Runway, Inc., New York, USA | June 23, 2020 |
| Anika Mangelmann (member since June 23, 2020) | Employed at ZALANDO SE, Berlin | June 23, 2020 |
| Jørgen Madsen Lindemann | Investor | May 31, 2016 |
| Anders Holch Povlsen | CEO Bestseller A / S, Brande, Denmark | December 12, 2013 |
| Mariella Röhm-Kottmann | Senior Vice President, Head of Corporate Accounting of ZF Friedrichshafen AG, Friedrichshafen | May 22, 2019 |
| Alexander Samwer (member until June 23, 2020) | Independent internet entrepreneur, Munich | December 12, 2013 |
| Konrad Schäfers (member until June 23, 2020) | Employed at ZALANDO SE, Berlin | June 2, 2015 |
| Beate Siert (member until June 23, 2020) | Employed at ZALANDO SE, Berlin | June 2, 2015 |
| Cristina Stenbeck (Chairperson) | Entrepreneur, investor and member of boards of directors, Stockholm, Sweden | May 22, 2019 |

The members of the Management Board and Supervisory Board only receive remuneration relating to their function as persons in key positions.

In fiscal year 2020, expenses of EUR 19.7m were recorded for the members of management who hold key positions in the group (prior year: EUR 25.9m). Of this amount, EUR 18.0m is attributable to share-based payment awards in fiscal year 2020 (prior year: EUR 24.2m). The expenses for share-based payment awards are calculated using graded vesting, which means that the periodical expense gradually decreases over the course of the vesting period. All other remuneration is classified as short-term benefits.

The share-based payments were granted in fiscal years 2011, 2013, 2018 and 2019. They can vest over a certain period of time and will be included in the total remuneration over this time period based on the service rendered in the respective fiscal year. The share-based payment awards granted to key management personnel are included in the plans explained in section 3.5.7 (21.) of the notes to the consolidated financial statements.

(3.) Remuneration of the Management Board and Supervisory Board of ZALANDO SE

Total remuneration of the Management Board totaled EUR 4.0m in fiscal year 2020 (prior year: EUR 1.7m). In fiscal year 2020 no new option rights were granted to the Management Board (prior year: 0.8m options under LTI 2019; total fair value: EUR 13.1m). Further information regarding Section 314 (1) No. 6a HGB can be found in the remuneration report, which is presented in the corporate governance statement and is part of the combined management report.

The members of the Supervisory Board received remuneration of EUR 0.8m in fiscal year 2020 (prior year: EUR 0.8m). The Management Board and Supervisory Board propose to the annual general meeting to grant remuneration in accordance with the provision contained in Art. 15 of ZALANDO SE's Articles of Association.

(4.) Corporate Governance Declaration

The declaration by the Management Board and the Supervisory Board regarding the Corporate Governance Code pursuant to Section 161 AktG of December 2020 is published on the company's website (<https://corporate.zalando.com/en/company/our-basic-principles>).

(5.) Business Combinations

In October 2020, ZALANDO SE acquired 100% of the voting equity interests of Fision. The Swiss software company will help Zalando solve the fashion industry's key challenge of size and fit. Fision's innovative body scanning app and virtual dressing room help consumers to easily assess how a garment would fit their body. Incorporating Fision's innovative technology into the Zalando platform will take size advice to the next level: from one based on fit feedback and garment measurements to one that is more personalized using both garment and body measurements.

The acquisition-date fair value of the total consideration transferred amounts to EUR 34.2m of which EUR 1.9m will be paid 21 months after the acquisition date. Separately from the acquisition of assets and assumption of liabilities in the business combination, Zalando has committed to pay an additional amount of up to EUR 2.8m over the course of the next three years targeted at promoting the retention of Fision's current or future employees. Amounts to be paid under this retention commitment will be recognized as expenses in accordance with IAS 19 within the annual periods the employees have rendered the related services.

The business combination leads to additions in intangible assets of EUR 38.2m, mostly related to the acquired software, and includes also goodwill acquired of EUR 7.0m. Zalando also recognized a deferred tax liability of EUR 6.1m regarding the acquired software and a deferred tax asset of EUR 1.4m relating to the carry forward of unused tax losses of the acquired company (see section 3.5.7 (27.)). Fision will be fully integrated into the Fashion Store which is why total goodwill, mainly relating to synergies, was also allocated to this operating segment (see section 3.5.7 (11.)).

There were no business combinations in the prior fiscal year 2019.

(6.) Average Number of Employees

The average number of employees³⁰ by individual business unit as of the reporting date is presented below:

Average Number of Employees

| | 2020 | 2019 |
|--------------|---------------|---------------|
| Commercial | 2,452 | 2,504 |
| Operations | 7,525 | 8,156 |
| Technology | 2,347 | 2,138 |
| Other | 1,545 | 1,439 |
| Total | 13,868 | 14,237 |

(7.) Information Regarding the Auditor

The consolidated financial statements and the annual financial statements of ZALANDO SE for the fiscal year from January 1 to December 31, 2020, were audited by Ernst & Young GmbH Wirtschaftsprüfungsgesellschaft, Stuttgart. The lead auditors were Kristian Ludwig (since 2019) and Sebastian Haas (since 2016). Ernst & Young GmbH Wirtschaftsprüfungsgesellschaft, Stuttgart, may audit the financial statements of the company until 2023, after which the audit has to be put out for tender.

The fees recognized as expenses for the auditor, Ernst & Young GmbH Wirtschaftsprüfungsgesellschaft, Stuttgart, amount to:

- EUR 0.9m for the audit (separate and consolidated financial statements) (prior year: EUR 0.7m),
- EUR 0.1m for other assurance services (prior year: EUR 0.1m) and
- EUR 0.0m for other services (prior year: EUR 0.1m).

(8.) Shareholdings

ZALANDO SE's direct and indirect shareholdings in its subsidiaries as of December 31, 2020, can be summarized as follows:

³⁰⁾ Excluding apprentices and working students.

List of Shareholdings

| No. | Company | Company domicile | Currency | Share of equity held by* | Share in-capital in % 2020 |
|---------------------|---|----------------------|----------|--------------------------|----------------------------|
| Subsidiaries | | | | | |
| 1 | zLabels GmbH | Berlin | EUR | Directly | 100.0 |
| 2 | Zalando Operations GmbH | Berlin | EUR | Directly | 100.0 |
| 3 | Zalando Logistics SE & Co. KG** | Erfurt | EUR | Directly 2 | 99.0 1.0 |
| 4 | Zalando Logistics Mönchengladbach SE & Co. KG** | Mönchengladbach | EUR | Directly 2 | 99.0 1.0 |
| 5 | Zalando Logistics Süd SE & Co. KG** | Berlin | EUR | Directly 2 | 99.0 1.0 |
| 6 | Zalando Logistics Operations France SAS | Paris, France | EUR | Directly | 100.0 |
| 7 | Zalando Customer Care DACH SE & Co. KG** | Berlin | EUR | Directly 2 | 99.0 1.0 |
| 8 | Zalando Customer Care International SE & Co. KG** | Berlin | EUR | Directly 2 | 99.0 1.0 |
| 9 | Zalando Fashion Entrepreneurs GmbH | Berlin | EUR | Directly | 100.0 |
| 10 | Zalando Lounge Service GmbH | Berlin | EUR | Directly | 100.0 |
| 11 | Zalando Outlets GmbH | Berlin | EUR | Directly | 100.0 |
| 12 | Zalando Ireland Ltd. | Dublin, Ireland | EUR | Directly | 100.0 |
| 13 | Zalando Finland Oy | Helsinki, Finland | EUR | Directly | 100.0 |
| 14 | BREAD & butter GmbH & Co. KG** | Berlin | EUR | Directly | 100.0 |
| 15 | Portokali Property Development III SE & Co. KG** | Berlin | EUR | Directly 2 | 99.9 0.1 |
| 16 | Zalando Studios Berlin GmbH | Berlin | EUR | Directly | 100.0 |
| 17 | Mobile Fashion Discovery GmbH | Berlin | EUR | Directly | 100.0 |
| 18 | Zalando Marketing Services GmbH | Berlin | EUR | Directly | 100.0 |
| 19 | BREAD & butter tradeshow Verwaltungs GmbH | Berlin | EUR | 14 | 100.0 |
| 20 | zLabels Trading Ltd. | Hong Kong, Hong Kong | HKD | 1 | 100.0 |
| 21 | zLabels China Trading Co. Ltd. | Dongguan, China | CNY | 20 | 100.0 |
| 22 | ifansho Holding GmbH | Berlin | EUR | Directly | 100.0 |
| 23 | nugg.ad GmbH | Berlin | EUR | 18 | 100.0 |
| 24 | Zalando Logistics Operations Polska sp. z o.o. | Gardno, Poland | PLN | 2 | 100.0 |
| 25 | Tradebyte Software GmbH | Ansbach | EUR | Directly | 100.0 |
| 26 | Zalando Lounge Logistics SE & Co. KG** | Berlin | EUR | Directly 2 | 99.0 1.0 |
| 27 | zLabels Trading Southern Europe S.L.U | Elche, Spain | EUR | 1 | 100.0 |
| 28 | zLabels LP GmbH | Berlin | EUR | 1 | 100.0 |
| 29 | Zalando Payments GmbH | Berlin | EUR | Directly | 100.0 |

List of Shareholdings

| No. | Company | Company domicile | Currency | Share of equity held by* | Share in-capital in % 2020 |
|--|--|----------------------------|----------|--------------------------|----------------------------|
| 30 | Fision AG | Zurich, Switzerland | EUR | Directly | 100.0 |
| 31 | Connected Retail GmbH | Berlin | EUR | Directly | 100.0 |
| 32 | Zalando Beauty Store GmbH | Berlin | EUR | Directly | 100.0 |
| 33 | Zalando Lounge Logistics Polska sp. z o.o. | Olsztynek, Poland | PLN | Directly | 100.0 |
| 34 | Anatwine Ltd. | Cheltenham, United Kingdom | GBP | Directly | 98.7 |
| 35 | Anatwine, Inc. | New Castle, Delaware, USA | USD | 34 | 100.0 |
| 36 | Zalando OpCo Polska Sp. z o.o. | Gluchow, Poland | PLN | 2 | 100.0 |
| 37 | zLabels Creation & Sales GmbH & Co. KG** | Berlin | EUR | 1 28 | 99.0 1.0 |
| 38 | zLabels Platform Services GmbH & Co. KG** | Berlin | EUR | 1 28 | 99.0 1.0 |
| 39 | Zalando Logistics Operations Italy S.R.L. | Bolzano, Italy | EUR | Directly | 100.0 |
| 40 | Zalando Logistics Operations Netherlands B.V. | Amsterdam, Netherlands | EUR | Directly | 100.0 |
| 41 | Zalando Lounge Content Solutions SE & Co. KG** | Berlin | EUR | Directly 10 | 99.0 1.0 |
| 42 | Zalando Customer Care Central Services SE & Co. KG** | Berlin | EUR | Directly 2 | 99.0 1.0 |
| 43 | Zalando Stores GmbH & Co. KG** | Berlin | EUR | 11 2 | 99.0 1.0 |
| 44 | Fashion Circle GmbH | Berlin | EUR | Directly | 100.0 |
| 45 | Zalando Logistics Services SE & Co. KG** | Berlin | EUR | Directly 2 | 99.0 1.0 |
| 46 | Zalando BTD 003 GmbH | Berlin | EUR | Directly | 100.0 |
| 47 | Zalando BTD 007 SE & Co. KG** | Berlin | EUR | Directly 2 | 99.0 1.0 |
| Associated companies and joint ventures | | | | | |
| 48 | Le New Black SAS | Paris, France | EUR | 23 | 33.8 |

*) The number refers to the ID of the respective company in the list of shareholdings.

**) Companies whose unlimited liability partner is the parent company or another company included in the consolidated financial statements.

Changes in the list of shareholdings:

- Acquisition of Fision AG,
- Divestiture of Zalando Digital Portugal, Unipessoal Lda, Kickz.com GmbH and Fashion-Trade.com B.V.,
- Increase of shareholdings in Anatwine Ltd. to 98.7% (prior year: 98.5%) as well as the
- Change of the company names of Zalando Logistics Operations France S.A.S. (prior year: Zalando S.A.S.), Connected Retail GmbH (prior year: Kickz Never Not Ballin' GmbH) and Zalando Stores GmbH & Co. KG (prior year: Zalando Outlet Stores GmbH & Co. KG).

(9.) Disclosure Exemptions

In accordance with Section 264b HGB, the partnerships³¹ listed as shareholdings are exempt from the requirement to disclose their financial statements and to prepare notes to the financial statements and a management report. In accordance with the provisions of Section 264 (3) HGB, zLabels GmbH, Zalando Lounge Service GmbH, Zalando Outlets GmbH, Zalando Fashion Entrepreneurs GmbH, Tradebyte Software GmbH, Zalando Studios Berlin GmbH and Zalando Marketing Services GmbH are exempt from the requirement to disclose their financial statements and to prepare notes to the financial statements and a management report.

(10.) Segment Reporting

Reporting on the business segments is in line with the internal reporting. The reporting to the top body of management of ZALANDO SE for purposes of internal control fundamentally corresponds to the principles of financial reporting described in section 3.5.2 in accordance with IFRS.

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

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

The Management Board measures the performance of the segments on the basis of the EBIT calculated in accordance with IFRS. EBIT for segment reporting purposes is defined as earnings before interest and taxes. No information on segment assets or liabilities is available or relevant for decision-making.

³¹⁾ Partnerships, which are exempt from the requirement to disclose their financial statements are presented with the following numbers in the list of shareholdings shown on the previous pages: 3, 4, 5, 7, 8, 14, 15, 26, 37, 38, 41, 42, 43, 45 and 47.

Segment Reporting 2020

| IN EUR M | Fashion Store | Offprice | All other segments | Total 2020 | 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 |
| Cost of sales | -4,238.2 | -586.0 | -123.5 | -4,947.7 | 359.9 | -4,587.8 |
| thereof intersegment cost of sales | -485.6 | 74.0 | -64.5 | -476.2 | 476.2 | 0.0 |
| Gross profit | 3,019.5 | 392.1 | 72.5 | 3,484.2 | -90.0 | 3,394.2 |
| thereof intersegment gross profit | -81.7 | 75.2 | -19.8 | -26.3 | 26.3 | 0.0 |
| Selling and distribution costs | -2,472.5 | -269.3 | -62.4 | -2,804.2 | 88.2 | -2,716.0 |
| thereof intersegment selling and distribution costs | -40.9 | -24.9 | -33.2 | -98.9 | 98.9 | 0.0 |
| Administrative expenses | -255.4 | -40.8 | -23.8 | -320.0 | 0.7 | -319.2 |
| Other operating income / expenses | 5.2 | 0.4 | 1.2 | 6.8 | 1.2 | 8.0 |
| Earnings before interest and taxes (EBIT) | 296.9 | 82.3 | -12.4 | 366.8 | 0.2 | 367.0 |

Segment Reporting 2019

| IN EUR M | Fashion Store | Offprice | All other segments | Total 2019 | Reconciliation | 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 |
| Cost of sales | -3,470.0 | -392.5 | -185.4 | -4,048.0 | 323.7 | -3,724.3 |
| thereof intersegment cost of sales | -382.8 | 0.0 | -101.2 | -484.0 | 484.0 | 0.0 |
| Gross profit | 2,494.9 | 267.0 | 66.8 | 2,828.7 | -70.4 | 2,758.3 |
| thereof intersegment gross profit | -102.3 | 0.0 | 12.4 | -89.9 | 89.9 | 0.0 |
| Selling and distribution costs | -2,085.9 | -205.6 | -74.7 | -2,366.2 | 71.0 | -2,295.2 |
| thereof intersegment selling and distribution costs | -50.1 | -14.7 | -17.7 | -82.5 | 82.5 | 0.0 |
| Administrative expenses | -228.5 | -38.8 | -31.6 | -298.9 | 0.0 | -298.9 |
| Other operating income / expenses | 1.0 | 0.7 | 0.0 | 1.6 | 0.0 | 1.6 |
| Earnings before interest and taxes (EBIT) | 181.4 | 23.2 | -39.4 | 165.2 | 0.6 | 165.8 |

Of the total external revenue generated in the group, Germany accounts for the largest part at, 28.9% (prior year: 31.3%), followed by Switzerland with a share in the low double-digit percentage range. External revenues are attributed to countries on the basis of the place where Zalando transfers the promised goods or services to a customer. Most of the non-current assets of the group of EUR 1,598.0m are located in Germany (52.2%). The group also holds considerable non-current assets in its fulfillment centers in Poland (18.9%) and Italy (12.2%).

Cost of sales include valuation allowances of inventories for the Fashion Store segment of EUR 189.1m (prior year: EUR 162.1), for the Offprice segment of EUR 27.8m (prior year: EUR 14.8m) and for all other segments of EUR 1.3m (prior year: EUR 2.8m).

The selling and distribution costs contain valuation allowances of trade receivables and write-downs due to uncollectible receivables for the Fashion Store segment of EUR 65.4m (prior year: EUR 38.6m), for the Offprice segment of EUR 0.0 (prior year: 1.0m) and for all other segments of EUR 2.7m (prior year: EUR 2.6m).

Total expenses include depreciation and amortization of intangible assets, property, plant and equipment and right-of-use assets for the Fashion Store segment of EUR 157.4m (prior year: EUR 161.9m), for the Offprice segment of EUR 24.2m (prior year: EUR 19.4m) and for all other segments of EUR 34.8m (prior year: EUR 13.6m).

The group's financial result is not allocated to the segments.

(11.) Subsequent Events

No significant events occurred between the reporting date (December 31, 2020) and the date the consolidated financial statements and the group management report were authorized for issue by the Management Board (March 15, 2021) which could materially affect the presentation of the financial performance and position of the group.

(12.) Authorization of the Financial Statements for Issue

The consolidated financial statements and group management report of ZALANDO SE are published in the Bundesanzeiger [German Federal Gazette]. The consolidated financial statements and the group management report were authorized for issue by the Management Board on March 15, 2021.

Berlin, March 15, 2021

The Management Board

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

Other Information and Service

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4.1 Responsibility Statement by the Management Board

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

Berlin, March 15, 2021

The Management Board

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

4.2 Independent Auditor's Report

To ZALANDO SE

Report on the Audit of the Consolidated Financial Statements and of the Group Management Report

Opinions

We have audited the consolidated financial statements of ZALANDO SE, Berlin, its subsidiaries (the group), which comprise the consolidated statement of comprehensive income for the fiscal year from January 1 to December 31, 2020, the consolidated statement of financial position as at December 31, 2020, the consolidated statement of changes in equity and the consolidated statement of cash flows for the fiscal year from January 1 to December 31, 2020, and the notes to the consolidated financial statements, including a summary of significant accounting policies. We have also audited the group management report of ZALANDO SE, which was combined with the management report of the company, 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 group 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 consolidated financial statements comply, in all material respects, with IFRSs as adopted by the EU and the supplementary provisions of German law pursuant to Section 315e (1) HGB and give a true and fair view of the assets and liabilities and financial position of the group as at December 31, 2020 and its financial performance for the fiscal year from January 1 to December 31, 2020 in accordance with these requirements, and
- the accompanying group management report as a whole provides an appropriate view of the group's position. In all material respects, this group management report is consistent with the consolidated financial statements, complies with German legal requirements and appropriately presents the opportunities and risks of future development. Our opinion on the group management report does not cover the content of the parts of the group management report referred to in the appendix to the auditor's report.

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

Basis for the Opinions

We conducted our audit of the consolidated financial statements and of the group management report in accordance with Section 317 HGB and the EU Audit Regulation (No. 537/2014, referred to subsequently as "EU Audit Regulation") and in compliance with German Generally Accepted Standards for Financial Statement Audits promulgated by the Institut der Wirtschaftsprüfer [Institute of Public Auditors in Germany] (IDW). Our responsibilities under those requirements and principles are further described in the "Auditor's responsibilities for the audit of the consolidated financial statements and of the group management report" section of our auditor's report. We are independent of the group entities in accordance with the

requirements of European law and German commercial and professional law, and we have fulfilled our other German professional responsibilities in accordance with these requirements. In addition, in accordance with Article 10 (2) f) of the EU Audit Regulation, we declare that we have not provided non-audit services prohibited under Article 5 (1) of the EU Audit Regulation. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinions on the consolidated financial statements and on the group management report.

Key Audit Matters in the Audit of the Consolidated Financial Statements

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements for the fiscal year from January 1 to December 31, 2020. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon; we do not provide a separate opinion on these matters.

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

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

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

When selling merchandise to customers, ZALANDO SE typically satisfies its performance obligation when the merchandise is delivered, i.e., the date on which control is transferred to the customer. ZALANDO SE 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 SE. 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 group and is one of the most important performance indicators for the Zalando group.

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

Auditor's Response

In the course of our audit, we traced the process of revenue recognition for merchandise from the order through to payment receipt on the basis of the documentation provided to us. We also evaluated compliance with the revenue recognition requirements under IFRS 15 and tested the effectiveness of the internal controls in place. This approach includes in particular the operating effectiveness of IT-supported controls. In order to identify anomalies regarding revenue and the development of revenue, we developed a forecast of country-specific revenue from the sale of merchandise based on historical daily, weekly and monthly revenue and compared it with the revenue recognized in the current fiscal year. In addition, we examined the posting ledger for any revenue entries that were entered manually and analyzed the respective contra accounts.

Moreover, as part of the substantive audit procedures, we obtained documentation (delivery slips, invoices, payment receipts) for a test of sales based on mathematical-statistical assumptions regarding the existence of revenue in order to determine whether the revenue recognized was based on a corresponding delivery of merchandise. We also verified the clerical accuracy of the expected returns as determined by the executive directors of ZALANDO SE. We compared the assumed month-specific, payment method-specific and country-specific rate of returns with 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 3.5.5. (Accounting Policies) and 3.5.7 (1.) (Revenue) in the Notes to the Consolidated Financial Statements.

2) Subsequent Measurement of Merchandise Inventory

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

The merchandise inventory of the Zalando group is continuously subject to risks associated with existing and potential future excess stocks, which are sold with high discounts through distance retail or are disposed of outside of distance retail. Write-downs on estimated future excess stocks as well as existing excess stocks are calculated at the end of the reporting period and recognized in the consolidated financial statements.

ZALANDO SE's executive directors calculate excess stocks based on the expected future sell-through for various sales channels and seasons. Future sell-through and the resulting estimated net realizable values are based on planning assumptions subject to judgment, which are determined using figures observed in the past.

We consider the subsequent measurement of merchandise inventory to be a key audit matter due to the high volume and heterogeneity of merchandise as well as the judgment used in calculating excess stocks and estimating the future net realizable value.

Auditor's Response

We evaluated the compliance of the accounting policies ZALANDO SE's executive directors applied in calculating the merchandise inventory and the timely recognition of write-downs with the regulations in IAS 2 (Inventories).

We also analyzed the process used by ZALANDO SE's executive directors regarding the subsequent measurement of merchandise and gained an understanding of the process steps.

Within the scope of the valuation model, the executive directors consider the expected sell-through of merchandise for various sales channels and seasons. We compared the 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 3.5.5. (Accounting Policies) and 3.5.7 (16.) (Inventories) in the Notes to the Consolidated 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 [“Aktengesetz”: 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 consolidated financial statements and on the group management report do not cover the other information, and consequently we do not express an opinion or any other form of assurance conclusion thereon.

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

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

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

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

The executive directors are responsible for the preparation of the consolidated financial statements that comply, in all material respects, with IFRSs as adopted in the EU and the additional requirements of German commercial law pursuant to Section 315e (1) HGB and for the preparation of the consolidated financial statements that, in compliance with these requirements, give a true and fair view of the assets and liabilities, financial position and financial performance of the group. In addition, the executive directors are responsible for such internal control as they have determined necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, the executive directors are responsible for assessing the group's ability to continue as a going concern. They also have the responsibility for disclosing, as applicable, matters related to going concern. In addition, they are responsible for financial reporting based on the going concern basis of accounting unless there is an intention to liquidate the group or to cease operations, or there is no realistic alternative but to do so.

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

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

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements and of the Group Management Report

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

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Section 317 HGB and the EU Audit Regulation and in compliance with German Generally Accepted Standards for Financial Statement Audits promulgated by the Institut der Wirtschaftsprüfer (IDW) will always detect a material misstatement. Misstate-

ments can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements and this group management report.

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

- Identify and assess the risks of material misstatement of the consolidated financial statements and of the group management report, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinions. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit of the consolidated financial statements and of arrangements and measures (systems) relevant to the audit of the group management report in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of these systems.
- Evaluate the appropriateness of accounting policies used by the executive directors and the reasonableness of estimates made by the executive directors and related disclosures.
- Conclude on the appropriateness of the executive directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in the auditor's report to the related disclosures in the consolidated financial statements and in the group management report or, if such disclosures are inadequate, to modify our respective opinions. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the group to cease to be able to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements present the underlying transactions and events in a manner that the consolidated financial statements give a true and fair view of the assets, liabilities, financial position and financial performance of the group in compliance with IFRSs as adopted by the EU and the additional requirements of German commercial law pursuant to Section 315e (1) HGB.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the group to express opinions on the consolidated financial statements and on the group management report. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinions.
- Evaluate the consistency of the group management report with the consolidated financial statements, its conformity with [German] law, and the view of the group's position it provides.
- Perform audit procedures on the prospective information presented by the executive directors in the group management report. On the basis of sufficient appropriate audit evi-

dence we evaluate, in particular, the significant assumptions used by the executive directors as a basis for the prospective information, and evaluate the proper derivation of the prospective information from these assumptions. We do not express a separate opinion on the prospective information and on the assumptions used as a basis. There is a substantial unavoidable risk that future events will differ materially from the prospective information.

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

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

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

Other Legal and Regulatory Requirements

Report on the Assurance in Accordance with Section 317 (3b) HGB on the Electronic Reproduction of the Consolidated Financial Statements and the Group 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 consolidated financial statements and the group management report (hereinafter the “ESEF documents”) contained in the attached electronic file Zalando_SE_KA+KLB_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 consolidated financial statements and the group 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 consolidated financial statements and the group 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 consolidated financial statements and the accompanying group management report for the fiscal year from January 1 to December 31, 2020 contained in the “Report on the audit of the consolidated financial statements and of the group management report” above.

Basis for the opinion

We conducted our assurance work on the reproduction of the consolidated financial statements and the group 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 “Group 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 consolidated financial statements and the group management report in accordance with Section 328 (1) Sentence 4 No. 1 HGB and for the tagging of the consolidated financial statements in accordance with Section 328 (1) Sentence 4 No. 2 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 consolidated financial statements and the audited group 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.

Group auditor's responsibilities for the assurance work on the ESEF documents

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 consolidated financial statements and to the audited group management report.
- Evaluate whether the tagging of the ESEF documents with Inline XBRL technology (iXBRL) enables an appropriate and complete machine-readable XBRL copy of the XHTML reproduction.

Further Information Pursuant to Article 10 of the EU Audit Regulation

We were elected as group 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 group auditor of ZALANDO SE without interruption since fiscal year 2010. ZALANDO SE has been a corporation geared to the capital market pursuant to Section 264d HGB since 2014.

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

In addition to the financial statement audit, we have provided to the company or entities controlled by it the following services that are not disclosed in the consolidated financial statements or in the group 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 Group Management Report whose content is unaudited

We have not audited the content of the following parts of the group 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 group management reports include disclosures that are not required pursuant to Sections 315, 315a HGB, Sections 315b to 315d HGB or GAS 20:

- 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
- the sections "Location Map Europe", "Highlights 2020", "Zalando at a Glance", the Management Board's letter to the shareholders, "The Zalando Share – 2020 in Review" and the chapter "Other Information and Service" in the Annual Report

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

Berlin, March 15, 2021

Ernst & Young GmbH
Wirtschaftsprüfungsgesellschaft

Ludwig
Wirtschaftsprüfer
[German Public Auditor]

Haas
Wirtschaftsprüfer
[German Public Auditor]

4.3 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, right-of-use assets 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.

4.4 Financial Calendar 2021

Financial Calendar

| Date | Event |
|-----------------------|--|
| Thursday, May 6 | Publication of the first quarter results 2021 |
| Wednesday, May 19 | Annual General Meeting 2021 |
| Thursday, August 5 | Publication of the second quarter results 2021 |
| Wednesday, November 3 | Publication of the third quarter results 2021 |

4.5 Imprint

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Statement Relating to the Future

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

The annual report is available in English. If there are variances, the German version has priority over the English translation. It is available for download in both languages at <https://corporate.zalando.com/en/investor-relations>.

