Financial Statements and Combined Management Report
2021

zalando

Zalando.

The Starting Point for Fashion.

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Content

Report of the Supervisory Board

Dear shareholders,

In 2021, COVID-19 continued to have us in its grip: the restrictions to public and social life followed the pandemic waves. Zalando adjusted to this 'new normal' early on and its vision to be the Starting Point for Fashion has remained fully intact. Zalando grew its active customer base, expanded to six new European countries and enabled more brands and retailers to accelerate their online activities through our platform, our customers and brands as well as an inclusive company culture at Zalando that welcomes employees from more than 140 different countries. Zalando took the lead with initiatives on various levels. Thus, not only the range of more sustainable products has been increased to more than 140,000 articles but also the Pre-owned category in the Zalando Fashion Store grew more than tenfold from 20,000 to 245,000 product choices to allow customers to reflect their values in their purchasing decisions. Zalando kicked off its transition from plastic shipping bags to paper bags to work toward our goal of eliminating single-use plastics in packaging by 2023. Over the past year, we have reached out to new partners from groups that are underrepresented in the European fashion industry and onboarded more than 40 black-owned brands. Acknowledging that we still have to go a long way to achieve our goal of becoming a net-positive company and the Starting Point for Fashion that is welcoming to everyone, the Supervisory Board committed itself even further to these topics. We established an expert committee dedicated to Diversity & Inclusion and sustainability to support the Management Board even more in their respective strategic efforts related to Diversity & Inclusion as well as sustainability and to ensure our close involvement in initiatives and reporting related thereto.

In the past year, the composition of the Management Board changed. Rubin Ritter decided to leave the company on June 1, 2021, after more than eleven years of dedicated commitment to the success of Zalando. The Supervisory Board wants to thank Rubin Ritter for his successful tenure and dedication. With Rubin Ritter leaving, we took on the task to refine the Management Board and to set it up for continuous, long-term success: the founders Robert Gentz and David Schneider continue as Co-CEOs, Dr. Astrid Arndt, an internal candidate, was newly appointed as of April 1, 2021, to serve as the company's dedicated Chief People Officer (CPO), and Jim Freeman's previous role as Chief Technology Officer (CTO) evolved into a Chief Business and Product Officer (CBPO) role. David Schröder, our current Chief Financial Officer (CFO), will assume the newly created role of Chief Operating Officer (COO) as of March 1, 2022, and hand over his responsibilities as CFO to Dr. Sandra Dembeck, who will join the Management Board from the outside. We are very confident that Zalando is thus well positioned to achieve its strategic ambitions and financial goals in the future. The Supervisory Board will continue to maintain an active focus and dialog with the Management Board on executive development and succession planning.

We look forward to 2022 in which Zalando will continue its journey to become even more the customers' Starting Point for Fashion with the support and for the benefit of our brand partners, retail partners, employees and shareholders.

Consultation and monitoring

The Supervisory Board duly performed its duties in accordance with statutory requirements, the Articles of Association, the Supervisory Board's Rules of Procedure and the German Corporate Governance Code. It received regular and detailed written and oral reports on the intended business strategy, material issues regarding financial, investment, personnel planning and the progress of business as well as risks and opportunities. In particular, the Management Board consulted the Supervisory Board on the group's general strategy and future of work approach. 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 D&I and sustainability committee, **Anders Holch Povlsen** Member of the Supervisory Board, member of the nomination committee, member of the remuneration committee, **Anika Mangelmann** Member of the Supervisory Board, member of the remuneration committee**, Niklas Östberg** Member of the Supervisory Board, member of the audit committee, **Cristina Stenbeck** Chairperson of the Supervisory Board, chairperson of the remuneration committee, member of the nomination committee, **Matti Ahtiainen** Member of the Supervisory Board, member of the audit committee, **Kelly Bennett** Deputy chairperson of the Supervisory Board, chairperson of the nomination committee, chairperson of the D&I and sustainability committee, member of the audit committee, **Mariella Röhm-Kottmann** Member of the Supervisory Board, chairperson of the audit committee, **Jade Buddenberg** Member of the Supervisory Board, member of the D&I and sustainability committee

Meetings of the Supervisory Board and its committees

The plenum of the Supervisory Board held four meetings in fiscal year 2021, the audit committee held five meetings, the remuneration committee held four meetings, the nomination committee held three meetings and the D&I and sustainability committee, which was established in August 2021, held one meeting in fiscal year 2021. The Supervisory Board established a committee for the share buy-back program of the company, which held one meeting. In addition, the Supervisory Board passed three circular resolutions and the nomination committee passed one circular resolution. 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. Niklas Östberg was unable to attend one meeting of the Supervisory Board. Jennifer Hyman was unable to attend one meeting of the Supervisory Board, two meetings of the remuneration committee and one meeting of the D&I and sustainability committee. The other members of the Supervisory Board attended all meetings of the Supervisory Board and all meetings of their respective committees.

It was planned to hold at least one meeting of the plenum and each committee as presence meetings. Due to the ongoing COVID-19 pandemic however, all meetings were held as video conferences.

Overview of plenary and committee meetings and attendance on an individual basis in fiscal year 2021

	Tenure	Plenum	Audit committee	Remuneration committee	Nomination committee	D&I and sustainability committee	Share buy-back committee	Total attendance rate (rounded)
Matti Ahtiainen	Since June 2020	4 / 4	5 / 5	--	--	--	1 / 1	100%
Kelly Bennett	Deputy chairperson, since May 2019	4 / 4	5 / 5	3 / 3	1 / 1	1 / 1	--	100%
Jade Buddenberg	Since June 2020	4 / 4	--	--	--	1 / 1	--	100%
Jennifer Hyman	Since June 2020	3 / 4	--	2 / 4	--	0 / 1	--	56%
Jørgen Madsen Lindemann	Since May 2016, until May 2021	1 / 1	2 / 2	3 / 3	2 / 2	--	--	100%
Anika Mangelmann	Since June 2020	4 / 4	--	4 / 4	--	--	--	100%
Anders Holch Povlsen	Since December 2013	4 / 4	--	1 / 1	3 / 3	--	--	100%
Niklas Östberg	Since May 2021	2 / 3	3 / 3	--	--	--	--	83%
Mariella Röhm-Kottmann	Since May 2019	4 / 4	5 / 5	--	--	--	1 / 1	100%
Cristina Stenbeck	Chairperson, since May 2019	4 / 4	--	1 / 1	3 / 3	--	1 / 1	100%
Total attendance rate								94%

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, including its financial performance, and the company's strategy as well as capital markets developments. The chairpersons of each of the committees of the Supervisory Board reported regularly to the full Supervisory Board on the activities of the committees. In addition, the Supervisory Board dealt with the following focus areas:

At its ordinary meeting on March 15, 2021, the Supervisory Board discussed and in accordance with the recommendations of the audit committee adopted the financial statements for 2020 (including the combined management report for 2020) and approved the consolidated financial statements for 2020 (including the combined management report for 2020) as well as the non-financial report 2020 as presented by the Management Board. It followed the proposal of the Management Board for the appropriation of profit for fiscal year 2020. In addition, the Supervisory Board adopted a resolution regarding its report for fiscal year 2020 and dealt with the agenda for the annual general meeting 2021. The Supervisory Board also reviewed and discussed the new remuneration system for the Management Board as presented by the remuneration committee. Further, the Supervisory Board appointed Dr. Astrid Arndt as member of the Management Board and resolved on the amended Rules of Procedures of the Management Board. Last but not least, the Supervisory Board discussed the progress of the platform ambitions of the company. Due to a potential conflict of interest, Anders Holch Povlsen and Jørgen Madsen Lindemann had received condensed pre-read material with selected information on this topic.

At its ordinary meeting on May 19, 2021, the Supervisory Board dealt in particular with the (re-)election of the members of the Supervisory Board's committees as well as the strategic partnership with Sephora SAS to join the Zalando platform. The Supervisory Board further focused on the Diversity & Inclusion strategy and discussed the approach on the future of work post-COVID-19 pandemic.

At its ordinary meeting on August 26, 2021, the Supervisory Board took the opportunity to discuss the strategic priorities of the company for 2022 and potential growth opportunities. The Supervisory Board further resolved on the setup of the D&I and sustainability committee.

At its ordinary meeting on December 6, 2021, the Supervisory Board dealt *inter alia* with growth opportunities, the groups financial and operational plan for fiscal year 2022 and the refined setup of the Management Board and the appointment of a new CFO, Dr. Sandra Dembeck. The Management Board and the Supervisory Board jointly resolved the annual declaration of conformity with the German Corporate Governance Code. The Supervisory Board also reviewed the results of its efficiency self-assessment for fiscal year 2021.

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 and measures discussed by the Supervisory Board included *inter alia* the partnership with Sephora SAS, the budget for a new fulfillment center, the increase of the reverse factoring facility and the delegation of approval matters relating to the share buy-back to an ad hoc committee (the share buy-back committee). The Supervisory Board has delegated the power to approve fulfillment center investments to the audit committee, as far as these require approval under the Management Board’s Rules of Procedure.

The Supervisory Board and the Management Board implemented an internal procedure for complying with approval requirements for related party transactions pursuant to Section 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 2020 and the consolidated financial statements for 2020, including the combined management report for 2020 and the non-financial report 2020, as well as the quarterly statement for the first quarter, the half-year report and quarterly statement for the third quarter of 2021. The audit committee regularly reviewed and discussed the focus and the quality 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 2021 for the appointment of the auditor and group auditor and discussed the status and development of the establishment of a non-financial internal control system. The chairperson of the audit committee conferred with the auditors on the audit focus. Further, the budget for a new fulfillment center was approved by the audit committee in accordance with its delegated powers.

Remuneration committee

The remuneration committee continued its work of the previous year on the review of the Man-agement Board’s performance and the design of the new remuneration system for the Man-agement Board under the new regulatory body of ARUG II legislation and the German Corpo-rate Governance Code in its amended version from December 16, 2019. The remuneration committee further addressed the succession planning for the Management Board, the service agreements of new and existing members of the Management Board as well as the termination agreement of the former member of the Management Board Rubin Ritter. The remuneration committee further dealt with the executive position planning and compensation framework for the two management levels below the Management Board.

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 shareholder representatives 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 previously determined. The nomination committee further dealt with the continuation of the succession planning of the Supervisory Board.

D&I and sustainability committee

The D&I and sustainability committee, which was established on August 26, 2021, in its first meeting primarily dealt with the Diversity & Inclusion report of the company and the initiatives of the company in the field of circularity.

Share buy-back committee

The share buy-back committee discussed the contemplated share buy-back program as well as its conditions and approved thereof in May 2021. The committee took essential decisions regarding the execution of the share buy-back program.

Conflicts of interest

Due to a conflict of interest, Supervisory Board members Anders Holch Povlsen and Jørgen Madsen Lindemann received condensed pre-read material with selected information on one agenda item of an 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 supported the Supervisory Board member Niklas Östberg upon his appointment with a virtual 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. He also received insights into Zalando's business model. Cristina Stenbeck as chairperson was briefed and trained in-depth in a virtual session including relevant materials on the content and sequences of the governance roadshow. A training session on Corporate Governance matters, including but not limited to corporate bodies' roles, personal suitability, key tasks and personal liability, conducted by an external provider in the form of a video conference was offered to all members of the Supervisory Board. Besides, the company educated the members of the Supervisory Board about regulatory changes, such as the new legal and governance framework under the German Financial Market Integrity Strengthening Act (FISG), the Act to supplement and amend the Regulations for the equal Participation of Women in Management Positions in the private and public Sectors (Zweites Führungspositionen-Gesetz, FüPoG) and the new Transparency Register and Financial Information Act (Transparenzregister- und Finanzinformationsgesetz, TraFinG).

Audit and ratification of the annual financial statements and consolidated financial statements

The annual financial statements and the consolidated financial statements for 2021, both including the combined management report were audited with an unqualified audit opinion. The remuneration report and the non-financial report were audited with unqualified opinions. The Management Board forwarded the annual financial statements and the consolidated financial statements for fiscal year 2021, both including the combined management report, and the non-financial report 2021, the remuneration report 2021 as well as the proposal of the Management Board for the appropriation of profit 2021 as well as the auditors' reports to the Supervisory Board and the audit committee.

Further information combined management report

In the first step, the audit committee comprehensively examined and discussed the financial statements, the non-financial report, the remuneration report and the proposal for the appropriation of profit in the presence of the auditor. The auditor reported on the most significant audit matters.

Further information combined management report

Thereafter and based on the audit committee's recommendation, the Supervisory Board examined the annual financial statements and consolidated financial statements for fiscal year 2021, both including the combined management report, and the non-financial report, the remuneration report as well as the proposal of the Management Board for the appropriation of profit. The result of the pre-assessment conducted by the audit committee and the Supervisory Board's own results corroborate the result of the external auditor. Based on this final review, the Supervisory Board raised no objections to the audit. The Supervisory Board therefore approved the annual financial statements for 2021, which are therefore adopted, and approved the consolidated financial statements for 2021, the non-financial report 2021 and the remuneration report 2021. The Supervisory Board concurred with the proposal of the Management Board for the appropriation of profit (to be carried forward to new account), in consideration in particular of the company's growth trajectory, financial planning, flexibility and strategy.

Further information consolidated financial statements

Corporate governance

The annual declaration of conformity was issued by the Management Board and the Supervisory Board in December 2021. The complete text of the declaration can be found in section 1.3.1. 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 2021 and to avoid repetition, please see the remuneration report.

Personnel matters

The term of office of the shareholder representatives in the Supervisory Board expired at the end of the annual general meeting on May 19, 2021. Jørgen Madsen Lindemann did not seek re-election. The Supervisory Board would like to thank him for his valuable contributions to the work of the Supervisory Board and the years of trust-based cooperation.

The annual general meeting 2021 re-elected Kelly Bennett, Jennifer Hyman, Anders Holch Povlsen, Mariella Röhm-Kottmann and Cristina Stenbeck and newly elected Niklas Östberg as members of the Supervisory Board. All members were elected until the end of the annual general meeting that resolves on the discharge for fiscal year 2022. Cristina Stenbeck remains chairperson and Kelly Bennett remains deputy chairperson of the Supervisory Board. Membership in committees is detailed in section 1.3.3.

The Supervisory Board would like to thank the Management Board and all employees of the Zalando group for their high level of commitment and the strong achievements in fiscal year 2021.

Berlin, February 28, 2022

Cristina Stenbeck

1.1 Balance sheet as of December 31, 2021

Assets

IN EUR M		Dec 31, 2021	Dec 31, 2020
A.	**Fixed assets**		
I.	**Intangible assets**		
1.	Internally generated software	63.6	56.0
2.	Industrial rights and similar rights and assets and licenses in such rights and assets	21.2	25.9
3.	Prepayments and internally generated software under development	45.6	28.6
		130.4	110.5
II.	**Property, plant and equipment**		
1.	Buildings on thrid-party land	1.4	0.9
2.	Plant and machinery	15.2	15.6
3.	Other equipment, furniture and fixtures	36.8	32.5
4.	Prepayments and assets under construction	4.5	6.6
		57.9	55.4
III.	**Financial assets**		
1.	Shares in affiliated companies	1,052.0	963.5
2.	Loans to affiliated companies	848.8	669.5
3.	Equity investments	0.4	0.4
		1,901.2	1,633.4
		2,089.4	1,799.4
B.	**Current assets**		
I.	**Inventories**		
1.	Raw materials and supplies	19.2	10.9
2.	Merchandise	1,408.3	1,252.4
3.	Prepayments and internally generated software under development	0,0	0.2
		1,427.6	1,263.5
II.	**Receivables and other assets**		
1.	Trade receivables	93.2	48.3
2.	Receivables from affiliated companies	542.7	586.2
3.	Other assets	133.1	107.6
		769.1	742.1
III.	**Securities**	**1,055.8**	**1,117.7**
IV.	**Cash on hand and bank balances**	**740.2**	**964.4**
		3,992.6	4,087.7
C.	**Prepaid expenses**	**16.2**	**18.6**
D.	**Deferred tax assets**	**32.0**	**24.3**
Total		**6,130.3**	**5,930.0**

Equity and liabilities

IN EUR M	Dec 31, 2021	Dec 31, 2020
A. Equity		
I. Subscribed capital	**262.0**	**255.3**
Less nominal value of treasury shares Conditional capital: EUR 92.3m (prior year: EUR 92.3m)	–3.3	–2.1
	258.7	253.1
II. Capital reserve	**1,185.8**	**1,309.4**
III. Unappropriated profit	**508.1**	**369.6**
	1,952.6	1,932.1
B. Provisions		
1. Tax provisions	10.2	0.0
2. Other provisions	595.1	553.6
	605.3	553.6
C. Liabilities		
1. Bonds thereof convertible: EUR 1,000.0m (prior year: EUR 1,000.0m)	1,000.0	1,000.0
2. Liabilities to banks	0,0	375.0
3. Prepayments received on account of orders	40.3	33.7
4. Trade payables	1,803.6	1,481.4
5. Liabilities to affiliated companies	468.3	352.7
6. Other liabilities thereof for taxes: EUR 158.2m (prior year: EUR 153.6m)	254.3	198.9
	3,566.6	3,441.7
D. Deferred income	**5.8**	**2.6**
Total	**6,130.3**	**5,930.0**

2.1 Income statement

Statement of profit and loss for the year ending December 31, 2021

IN EUR M	2021	2020
1. Revenue	10,229.0	7,913.6
2. Other own work capitalized	57.4	49.6
3. Other income thereof income from currency translation: EUR 79.4m (prior year: EUR 108.9m)	150.6	179.6
	10,437.0	8,142.8
4. Cost of materials		
a) Cost of raw materials, consumables and supplies and of purchased merchandise	–5,475.1	–4,250.0
b) Cost of purchased services	–83.7	–44.9
5. Personnel expenses		
a) Wages and salaries	–445.0	–377.4
b) Social security, pension and other benefit costs thereof pension costs: EUR 0.3m (prior year: EUR 0.2m)	–66.0	–52.6
6. Amortization of intangible assets and depreciation of property, plant and equipment	–64.2	–66.1
7. Other operating expenses thereof expenses from currency translation: EUR 96.8m (prior year: EUR 104.4m)	–4,084.7	–3,086.6
	–10,218.7	–7,877.7
8. Income from profit transfers	13.9	8.1
9. Expenses from transfer of losses	0.0	–3.5
10. Other interest and similar income thereof from afflliated companies: EUR 15.0m (prior year: EUR 13.8m)	22.3	43.5
11. Interest and similar expenses thereof to affiliated companies: EUR 6.3m (prior year: EUR 4.6m)	–32.0	–70.6
	4.2	–22.5
12. Income taxes thereof income resulting from changes in deferred taxes: EUR 7.7m (prior year: EUR 17.8m)	–83.0	–72.6
13. Earnings after tax	139.5	170.0
14. Other taxes	–0.9	0.0
15. Net profit for the year	138.5	170.0
16. Unappropriated profit from the prior year	369.6	199.6
17. Unappropriated profit	**508.1**	**369.6**

3.1 Notes to the financial statements

3.1.1 General disclosures on content and classification of the financial statements

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

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

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

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

3.1.2 Accounting and valuation methods (section 284 (2) No. 1 HGB)

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

The company makes use of the option pursuant to Section 248 (2) Sentence 1 HGB to capitalize internally generated intangible assets and amortizes these assets. Amortization is charged using the straight-line method over an average estimated economic useful life of three years. The cost of internally generated intangible assets includes direct costs as well as a proportionate share of overheads.

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

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

Useful lives

	Years
Leasehold improvements	7 – 15
Plant and machinery	4 – 20
Furniture, fixtures and office equipment	2 – 15

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

With regard to financial assets, shares in other entities are recognized at the lower of cost or, if the impairment is expected to be permanent, net realizable value. The attributable values were calculated based on the capitalized earnings value of the respective investment in accordance with IDW AcP HFA 10.

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

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

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

Other uncollectible receivables are written off in full individually.

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

Cash and cash equivalents are recognized at nominal value.

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

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

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

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

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

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

Liabilities are recorded at the settlement value.

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

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

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

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

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

Derivative financial instruments with matching critical terms were used as hedges. The hedging instruments have a term of up to fourteen months. The derivative financial instruments likewise comprise pending transactions. Forward exchange contracts and the corresponding cash flows from orders qualify as valuation units as defined by Section 254 HGB. However, only the spot component of the market value development is included in the hedge.

Pending purchase and sale transactions and the corresponding spot development of the forward exchange contracts are initially accounted for using the net hedge method. Changes in the value are therefore not recognized if they are offset by changes in the value of the underlying. Once a liability or receivable has been recognized, the changes in the value of liabilities/receivables and forward exchange contracts are accounted for using the gross method. Changes in the value of hedged transactions and the opposite spot developments in the value of forward exchange contracts are then recognized through profit or loss.

The market value of the forward exchange contracts is based on the ECB reference rates taking into account the forward discounts and premiums customary for the market. If an ineffective portion is identified or expectations regarding the hedged transaction occurring change, the negative market value of the corresponding derivative financial instrument is recognized in the provision for potential losses from pending transactions through profit and loss. The positive market value of the corresponding instruments is not recognized.

In addition, forward exchange contracts were agreed upon in order to hedge against short-term liquidity bottlenecks. No valuation units according to HGB were designated for these transactions. Furthermore, since only the spot component was included in the hedge, the interest component is likewise freestanding. If these derivative financial instruments have negative market values, a provision for potential losses from pending transactions is recognized through profit or loss.

3.1.3 Notes to the balance sheet

Fixed assets

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

Development costs for internally generated intangible assets of EUR 57.3m (prior year: EUR 48.0m) were capitalized in the fiscal year. As in the prior year, development costs were solely incurred for the development of software. Research costs, which are not material, were directly expensed.

List of shareholdings classified as fixed financial assets

The company held shareholdings in the following affiliated companies and equity investments as of December 31, 2021:

List of shareholdings

No.	Company	Company domicile	Currency
Subsidiaries			
1	zLabels GmbH[2]	Berlin	EUR
2	Zalando Operations GmbH	Berlin	EUR
3	Zalando Logistics SE & Co. KG[3]	Erfurt	EUR
4	Zalando Logistics Mönchengladbach SE & Co. KG[3]	Mönchengladbach	EUR
5	Zalando Logistics Süd SE & Co. KG[3]	Berlin	EUR
6	Zalando Logistics Operations France SAS	Paris, France	EUR
7	Zalando Customer Care DACH SE & Co. KG[3]	Berlin	EUR
8	Zalando Customer Care International SE & Co. KG[3]	Berlin	EUR
9	Zalando Lounge Service GmbH[2]	Berlin	EUR
10	Zalando Outlets GmbH[2]	Berlin	EUR
11	Zalando Ireland Ltd.	Dublin, Ireland	EUR
12	Zalando Finland Oy	Helsinki, Finland	EUR
13	BREAD & butter GmbH & Co. KG	Berlin	EUR
14	Portokali Property Development III SE & Co. KG[3]	Berlin	EUR
15	Zalando Studios Berlin GmbH	Berlin	EUR
16	Mobile Fashion Discovery GmbH	Berlin	EUR
17	Zalando Marketing Services GmbH[2]	Berlin	EUR
18	BREAD & butter tradeshow Verwaltungs GmbH	Berlin	EUR
19	zLabels Trading Ltd.	Hong Kong, Hong Kong	HKD
20	zLabels China Trading Co. Ltd.	Dongguan, China	CNY
21	ifansho Holding GmbH	Berlin	EUR
22	nugg.ad GmbH	Berlin	EUR
23	Zalando Logistics Operations Polska sp. z o.o.	Gardno, Poland	PLN
24	Tradebyte Software GmbH[2]	Ansbach	EUR
25	Zalando Lounge Logistics SE & Co. KG[3]	Berlin	EUR
26	Zalando Logistics Operations Spain S.L.U.	Elche, Spain	EUR
27	zLabels LP GmbH	Berlin	EUR
28	Zalando Payments GmbH	Berlin	EUR
29	Zalando Switzerland AG	Zurich, Switzerland	CHF
30	Connected Retail GmbH	Berlin	EUR

	Share of equity held by[1]	Share in capital as % 2021	Net income/loss for 2021 (in EUR m)	Equity (in EUR m)
	Directly	100.0	2.9	43.2
	Directly	100.0	–3.3	101.7
	Directly 2	99,0 1,0	6.7	76.7
	Directly 2	99,0 1,0	4.4	104.4
	Directly 2	99,0 1,0	5.0	87.4
	Directly	100.0	0.6	11.8
	Directly 2	99,0 1,0	2.5	4.9
	Directly 2	99,0 1,0	2.5	4.8
	Directly	100.0	0.5	0.0
	Directly	100.0	0.0	12.2
	Directly	100.0	27.0	85.2
	Directly	100.0	4.1	23.6
	Directly	100.0	–0.1	3.0
	Directly 2	99,9 0,1	0.0	14.0
	Directly	100.0	1.1	1.5
	Directly	100.0	–0.1	0.3
	Directly	100.0	6.5	21.0
	13	100.0	0.0	0.0
	1	100.0	0.0	0.8
	19	100.0	0.0	0.5
	Directly	100.0	0.1	10.7
	17	100.0	0.3	1.9
	2	100.0	1.0	65.1
	Directly	100.0	3.9	1.5
	Directly 2	99,0 1,0	0.8	8.5
	1	100.0	0.2	7.7
	1	100.0	0.0	0.0
	Directly	100.0	34.6	223.4
	Directly	100.0	–3,4	–3,5
	Directly	100.0	–0.4	0.5

No.	Company	Company domicile	Currency
31	Zalando Beauty Store GmbH	Berlin	EUR
32	Zalando Lounge Logistics Polska sp. z o.o.[4]	Olsztynek, Polen	PLN
33	Tradebyte Software Ltd.	Cheltenham, UK	GBP
34	Anatwine, Inc.	New Castle, Delaware, USA	USD
35	Zalando OpCo Polska Sp. z o.o.[4]	Gluchow, Poland	PLN
36	zLabels Creation & Sales GmbH & Co. KG	Berlin	EUR
37	zLabels Platform Services GmbH & Co. KG	Berlin	EUR
38	Zalando Logistics Operations Italy S.R.L.	Bolzano, Italy	EUR
39	Zalando Logistics Operations Netherlands B.V.	Bleiswijk, Netherlands	EUR
40	Zalando Lounge Content Solutions SE & Co. KG[3]	Berlin	EUR
41	Zalando Customer Care Central Services SE & Co. KG[3]	Berlin	EUR
42	Zalando Stores GmbH & Co. KG	Berlin	EUR
43	Fashion Circle GmbH	Berlin	EUR
44	Zalando Logistics Gießen SE & Co. KG[3]	Berlin	EUR
45	Zalando BTD 003 GmbH	Berlin	EUR
46	Zalando BTD 007 SE & Co. KG[3]	Berlin	EUR
47	Zalando Lounge Operations Bydgoszcz Polska Sp. z.o.o.	Olsztynek, Poland	PLN

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

1) The numbering refers to the number of the company
2) Net income for 2021 before profit transfer
3) ZALANDO SE is general partner
4) As of Dec 31, 2020
5) As of Jun 30, 2021

Share of equity held by[1]	Share in capital in % 2021	Net income/loss for 2021 (in EUR m)	Equity (in EUR m)
Directly	100.0	0.0	1.0
Directly	100.0	1.0	54.9
Directly	98.7	1.2	–13,9
33	100.0	0.0	0.0
2	100.0	1.5	59.6
1 27	99,0 1,0	0.0	2.1
1 27	99,0 1,0	0.0	2.3
Directly	100.0	3.9	115.8
Directly	100.0	–9.2	98.5
Directly 9	99,0 1,0	0.4	2.5
Directly 2	99,0 1,0	0.2	1.8
10 2	99,0 1,0	–3.9	9.7
Directly	100.0	0.1	0.4
Directly 2	99,0 1,0	–0.1	22.4
Directly	100.0	0.0	0.0
Directly 2	99,0 1,0	0.0	0.0
Directly	100.0	–0.2	24.9

22	33.8	0.0	0.1

Inventories

Inventories include goods, primarily consisting of shoe and textile product groups.

Receivables and other assets

Most of the receivables due from affiliated companies are receivables from intercompany factoring of EUR 488.8m (prior year: EUR 531.1m) and trade receivables of EUR 53.9m (prior year: EUR 54.9m).

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

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

Equity

Subscribed capital

As of the reporting date, 262,022,094 (prior year: 255,253,307) no-par value registered shares (Stückaktien) are outstanding. Each share represents an imputed share of subscribed capital of EUR 1.00 and entitles the bearer to one vote at the company's annual general meeting.

During fiscal year 2021, subscribed capital was increased by a total of EUR 6.8m to EUR 262.0m by making partial use of conditional capital 2013, 2014 and 2016. Subscribed capital is fully paid in.

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

Authorized and conditional capital

	Amount in EUR m	Number of no-par value shares (Stückaktien)	Purpose
Authorized capital 2020	100.3	100,266,384	Capital increase for contributions in cash or in kind 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 convertible bonds and/or options until June 22, 2025

Content of the authorizing resolution on the authorized capital 2020

By way of a resolution by the annual general meeting on June 23, 2020 the Management Board is authorized to increase the registered capital of the company until June 22, 2025, with the consent of the Supervisory Board, once or repeatedly by up to a total of EUR 100,266,384 by the issuance of 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 further authorized, in each case with the consent of the Supervisory Board, to exclude shareholder subscription rights one or more times in certain cases. The total shares issued under the aforesaid authorizations with the exclusion of subscription rights for capital increases against contributions in cash and/or in kind must not exceed 20% of the registered share capital either at the time the authorization becomes effective or at the time it is exercised.

Furthermore, 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.

Treasury shares

In 2021, ZALANDO SE distributed a total of 933,251 treasury shares to employees under employee option programs. As part of the share buyback program 2021, 2,110,378 shares in the company were bought back. The buyback began on May 7, 2021 and ended on July 30, 2021. The shares bought back serve to meet ZALANDO SE's obligations arising from stock option programs for employees of the Zalando group and for members of the Management Board of ZALANDO SE. In total, the company holds 3,302,861 treasury shares (notional share in share capital of EUR 3,302,861) as of the reporting date, and thus 1.26% of the share capital.

Share-based payments

The company uses Stock Option Plans (SOP 2013, SOP 2014) and Long-Term Incentives (LTI 2018, LTI 2019, LTI 2021), Employee Incentive Plans (EIP) (2016, 2017, 2018, 2019) as well as the Zalando Ownership Plans (ZOP 2019, ZOP 2021) and Virtual Stock Option Plans (VSOP 2017, VSOP 2018) for stock-based compensation, which are granted to members of the Management Board and selected employees in managerial positions.

The stock option plans are as follows:

Stock option plans

Program	Outstanding options	Weighted average exercise price (in EUR)	Vesting period
SOP 2013: Management Board	407.475	1.00	4 years
LTI 2018: Management Board	4,296,949	47.44	4 – 5 years
LTI 2019: Management Board	412,450	18.13	1 – 4 years
LTI 2021: Management Board	102,339	61.36	4 years
ZOP 2021: Management Board	1,903	1.00	0 – 2 years
SOP 2014: Employees	661,448	23.65	4 years
EIP 2016, 2017, 2018, 2019: Employees	2,760,276	37.26	4 years
ZOP 2019: Employees	1,409,917	39.19	0 – 2 years
VSOP 2017: Employees	30,000	50.00	3 years
VSOP 2018: Employees	140,000	29.84	2 – 5 years

Capital reserve

The capital reserve amounts to EUR 1,185.8m (prior year: EUR 1,309.4m). In the fiscal year, the capital reserve included an amount of EUR 45.5m stemming from share-based equity-settled payment awards (prior year: EUR 43.9m). Furthermore, the capital reserve was increased by EUR 2.6m in a capital increase from conditional capital 2014 and 2016. On the other hand, the capital reserve decreased by EUR 171.8m due to the purchase of treasury shares (less the issue of treasury shares under option programs).

The capital reserve includes an amount of EUR 229.3m (prior year: EUR 57.5m) pertaining to treasury shares.

Unappropriated profit

Unappropriated profit

IN EUR M	2021	2020
As of Jan 1	369.6	199.6
Net profit for the year	138.5	170.0
As of Dec 31	**508.1**	**369.6**

Voting rights notifications

Pursuant to Section 160 (1) No. 8 AktG, an entity must disclose information regarding shareholdings. Please refer to attachment B to these notes for the shareholdings subject to the notification requirements pursuant to Section 33 (1) or (2) WpHG ["Wertpapierhandelsgesetz": German Securities Trading Act] and Section 40 (1) WpHG of which the company has been notified.

Provisions

Other provisions totaling EUR 605.3m were recognized (prior year: EUR 553.6m). They primarily relate to outstanding invoices for fulfillment expenses (EUR 234.0m), expected returns (EUR 144.1m), marketing expenses (EUR 114.6m), other outstanding invoices (EUR 42.5m) as well as personnel-related expenses (EUR 17.2m).

Liabilities

The bonds consist of two tranches of convertible bonds placed on August 6, 2020 for a total amount of EUR 1.0bn; EUR 500m each (prior year: EUR 1.0bn). The terms of the tranches are until August 6, 2025 and August 6, 2027.

Furthermore, under reverse factoring agreements, suppliers' claims against Zalando totaling EUR 599.8m were transferred to various banks as of December 31, 2021 (December 31, 2020: EUR 449.8m). They were disclosed under trade payables on the face of the balance sheet.

Liabilities to affiliated companies relate primarily to cash pool liabilities of EUR 269.8m (prior year: EUR 139.7m) and trade payables of EUR 183.5m (prior year: EUR 185.0m).

Other liabilities of EUR 254.3m (prior year. EUR 198.9m) relate mainly to taxes and liabilities related to gift vouchers.

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

Deferred taxes

Zalando discloses deferred tax assets and liabilities in the balance sheet as a net amount. This results in a net deferred tax asset of EUR 32.0m (prior year: EUR 24.3m). The deferred tax assets of EUR 70.0m (prior year: EUR 57.2m) are mostly comprised of investments held in subsidiaries, the differing valuations of current foreign currency receivables and payables (as a result of unrealized exchange rates) as well as the differing valuations of provisions (such as restoration obligations, potential losses, vacation) and the share-based payment programs.

Deferred tax assets are counterbalanced by deferred tax liabilities of EUR 38.0m (prior year: EUR 32.9m) that mainly result from the capitalization of internally generated intangible assets.

Deferred taxes break down as follows:

Deferred tax assets and liabilities

	Deferred tax assets		Deferred tax liabilities		Net balance	
IN EUR M	Dec 31, 2021	Dec 31, 2020	Dec 31, 2021	Dec 31, 2020	Dec 31, 2021	Dec 31, 2020
Intangible assets	0.0	0.0	-33.0	-27.4	-33.0	-27.4
Property, plant and equipment and financial assets	27.8	25.3	-1.2	-0.7	26.6	24.6
Receivables and other assets	0.0	1.7	-3.7	-2.2	-3.7	-0.5
Provisions and other liabilities	9.9	5.2	-0.1	-2.6	9.8	2.6
Share-based payments	32.3	25.0	0.0	0.0	32.3	25.0
Total	**70.0**	**57.2**	**-38.0**	**-32.9**	**32.0**	**24.3**
Netting	-38.0	-32.9	38.0	32.9	0.0	0.0
Total recognized deferred tax assets and liabilities	**32.0**	**24.3**	**0.0**	**0.0**	**32.0**	**24.3**

3.1.4 Notes to the income statement

Revenue

In fiscal year 2021, around 44.3% of revenue related to the Germany/Austria/Switzerland (DACH region) (see following table).

Revenue by geographical region

IN EUR M	2021		2020		Change
DACH*	4,530.7	44.3%	3,667.4	46.3%	863.3
Rest of Europe**	5,698.3	55.7%	4,246.3	53.7%	1,452.0
ZALANDO SE	**10,229.0**	**100.0%**	**7,913.6**	**100%**	**2,315.3**

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

Revenue stems from the sale of merchandise (EUR 9,052.1m), the provision of third-party services (EUR 952.4m), as well as revenue from intercompany charges (EUR 224.4m).

Income and expenses relating to other periods

Other income contains income relating to other periods of EUR 26.7m (prior year: EUR 29.9m), mainly from the reversal of provisions. Other expenses contain expenses relating to other periods of EUR 2.5m (prior year: EUR 0.4m).

Income taxes

Income taxes include the deferred taxes and current income taxes paid or payable. They comprise trade tax, corporate income tax and solidarity surcharge. As in the prior year, the statutory corporate income tax rate, including solidarity surcharge, for the assessment period 2021 was 15.8%. The applicable trade tax rate was 14.8% as in the prior year.

Current and deferred taxes are presented in the following table.

Current and deferred taxes

IN EUR M	Jan 1 – Dec 31, 2021	Jan 1 – Dec 31, 2020
Deferred taxes	7.7	17.8
Current taxes	–90.7	–90.3
Total	**–83.0**	**–72.6**

Restrictions on distribution pursuant to Section 268 (8) HGB

The recognition of internally generated intangible assets less the deferred tax liabilities recognized thereon and the excess of deferred tax assets over deferred tax liabilities result in a restricted amount of EUR 132.4m (prior year: EUR 106.3m).

3.1.5 Other notes

Number of employees

An annual average of 5,868 (prior year: 4,992) persons were employed by the company in the fiscal year:

Average number of employees

Commercial	1,809
Technology	2,005
Others	2,054
Total	**5,868**

Group affiliation

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

Audit fees

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

Subsequent events

The Management Board of ZALANDO SE decided to initiate a share buyback program on January 20, 2022. Started on January 21, 2022, the company will buy back up to 2.2 million treasury shares with a total purchase price of up to EUR 200.0m until April 21, 2022 at the latest to meet its obligations arising from option programs for employees and members of the Management Board.

There were no other significant events between the reporting date (December 31, 2021) and the date the annual financial statements and management report are authorized for issue by the Management Board (February 28, 2022) that could have a material impact on the presentation of the assets, liabilities, financial position and financial performance of the company.

Members of the Supervisory Board

Members of the Supervisory Board

Supervisory Board	Profession	Supervisory Board member since
Cristina Stenbeck	Investor and public company director	May 22, 2019
Kelly Bennett	Executive Advisor	May 22, 2019
Jennifer Hyman	CEO, Chair of the Board and Co-Founder of Rent the Runway Inc.	June 23, 2020
Jørgen Madsen Lindemann (member until May 19, 2021)	Investor	May 31, 2016
Niklas Östberg	CEO and Co-Founder of Delivery Hero SE	May 19, 2021
Anders Holch Povlsen	CEO of Bestseller A/S	December 12, 2013
Mariella Röhm-Kottmann	SVP/Head of Corporate Accounting of ZF Friedrichshafen AG	May 22, 2019
Matti Ahtiainen	Employed at Zalando Finland Oy	June 23, 2020
Jade Buddenberg	Employed at ZALANDO SE	June 23, 2020
Anika Mangelmann	Employed at ZALANDO SE	June 23, 2020

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

According to the Articles of Association, the members of the Supervisory Board received remuneration of EUR 1.0m in fiscal year 2021 (prior year: EUR 0.8m). The remuneration of the Supervisory Board members falls due after the annual general meeting in which the consolidated financial statements for the fiscal year for which the remuneration is paid or their approval is decided on.

Reference is also made to the remuneration report, which is included in the Annual Report 2021.

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

Current and past mandates of the Supervisory Board

Name of Supervisory Board member	Memberships in supervisory boards whose establishment is required by law or in comparable domestic or foreign controlling bodies of business enterprises
Matti Ahtiainen	–
Kelly Bennett (Deputy chairperson)	–
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) ZF India Pvt. Ltd., India (chairperson of the Board) Compagnie Financière de ZF SAS, France (chair of the Supervisory Board)
Jørgen Madsen Lindemann (member until May 19, 2021)	–
Niklas Östberg (member since May 19, 2021)	trivago N.V., Germany (member of the Supervisory Board)
Anika Mangelmann	–
Jade Buddenberg	–
Anders Holch Povlsen	Heartland A/S and various entities of the Heartland Group (including entities of the Bestseller Group and Intervare A/S and subsidiaries) as well as entities with a family connection (member of the Board of Directors) J.Lindeberg Holding (Singapore) Pte. Ltd., Singapore, and subsidiaries (member of the Board of Directors) Donau Agro ApS. (member of the Board of Directors)
Cristina Stenbeck (Chairperson)	Spotify Technology S.A., Luxembourg (member of the Board of Directors)

Members of the Management Board

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

Members of the Management Board

Management Board	Profession
Robert Gentz	Management Board member
David Schneider	Management Board member
Rubin Ritter (until June 1, 2021)	Management Board member
Dr. Astrid Arndt (since April 1, 2021)	Management Board member
David Schröder	Management Board member
James M. Freeman, II	Management Board member

The members of ZALANDO SE's Management Board are not members of any statutory supervisory boards or members of comparable controlling bodies of enterprises in Germany or abroad.

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

The remuneration of the Management Board totaled EUR 5.5m in fiscal year 2021 (prior year: EUR 4.0m). Under LTI 2021 and ZOP 2021, the members of the Management Board were also granted 0.1 million new option rights (total fair value: EUR 3.5m) in fiscal year 2021. No new option rights were granted in the prior year.

Contingent liabilities as defined by Section 251 HGB

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

Contingent liabilties

IN EUR M	Dec 31, 2021	Dec 31, 2020
Contingent liabilities from rental guarantees	34.6	33.5
thereof to affiliated companies	(34.6)	(33.5)
Joint loan liabilities	0,0	2.7
thereof to affiliated companies	0,0	(2.7)
Contingent liabilities from payment guarantees	2.7	2.7
thereof to affiliated companies	(2.7)	(2.7)
Contingent liabilities from customs guarantees	0,0	2.6
thereof to affiliated companies	0,0	(2.6)
	37.3	**41.5**

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

Contingent liabilities for rental contracts of subsidiaries

Subsidiary	Agreement/location
Zalando Logistics SE & Co. KG	Rental agreement, fulfillment space in Brieselang
Zalando Logistics SE & Co. KG	Rental agreement, fulfillment space in Erfurt
Zalando Logistics SE & Co. KG	Rental agreement, fulfillment space in Erfurt
Zalando Logistics Mönchengladbach SE & Co. KG	Rental agreement, fulfillment space in Mönchengladbach
Zalando Logistics Mönchengladbach SE & Co. KG	Rental agreement, fulfillment space in Mönchengladbach
Zalando Logistics Süd SE & Co. KG	Rental agreement, fulfillment space in Lahr
Zalando Logistics Operations Polska sp. z.o.o.	Rental agreement, fulfillment space in Szczecin (PL)
Zalando OpCo Polska sp. z.o.o.	Rental agreement, fulfillment space in Lodz (PL)
Zalando Lounge Logistics Polska sp. z.o.o.	Rental agreement, fulfillment space in Olsztynek (PL)
Zalando Logistics Operations Italy S.r.l.	Rental agreement, fulfillment space in Verona (IT)
Zalando Logistics Operations Italy S.r.l.	Rental agreement, fulfillment space in Verona (IT)
Zalando Logistics Operations Italy S.r.l.	Rental agreement, fulfillment space in Verona (IT)
Zalando Logistics Operations Netherlands B.V.	Rental agreement, fulfillment space in Bleiswijk (NL)
Zalando Lounge Content Solutions SE & Co. KG	Rental agreement, office space in Berlin, Zeughofstraße
Zalando Lounge Operations Bydgoszcz Polska sp. z.o.o.	Rental agreement, fulfillment space in Bydgoszcz (PL)
Zalando Logistics Operations Netherlands B.V.	Rental agreement, fulfillment space in Bleiswijk (NL)
Zalando Lounge Logistics Bydgoszcz Polska sp. z o.o.	Rental agreement, fulfillment space in Bydgoszcz (PL)

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

Contingent liabilities for other contracts of subsidiaries

Subsidiary	Agreement/location
zLabels GmbH	Agreement for fulfillment services
zLabels Trading Limited	AirPlus company account
Zalando Logistics Operations Italy S.r.l.	Service agreement at fulfillment space in Verona (IT)
Zalando Lounge Logistics Polska sp z.o.o.	Warehouse equipment
Zalando Logistics Operations Italy S.r.l.	Agreement for fulfillment services
Zalando Logistics Operations Netherlands B.V.	Agreement for fulfillment services
Zalando Logistics Operations Polska sp. z o.o.	Agreement for fulfillment services
Zalando Logistics SE & Co. KG	Framework service agreement for conveyor systems
Zalando Logistics Mönchengladbach SE & Co. KG	Framework service agreement for conveyor systems
Zalando Logistics Süd SE & Co. KG	Framework service agreement for conveyor systems
Zalando Lounge Logistics SE & Co. KG	Framework service agreement for conveyor systems
Zalando Logistics Gießen SE & Co. KG	Framework service agreement for conveyor systems
Zalando Logistics Operations Italy S.r.l.	Framework service agreement for conveyor systems
Zalando Logistics Operations Netherlands B.V.	Framework service agreement for conveyor systems
Zalando Logistics Operations Spain S.L.U.	Framework service agreement for conveyor systems
Zalando Logistics Operations France S.A.S.	Framework service agreement for conveyor systems
Zalando Logistics Operations Polska sp. z o.o.	Framework service agreement for conveyor systems
Zalando OpCo Polska sp. z o.o.	Framework service agreement for conveyor systems
Zalando Lounge Logistics Polska sp. z o.o.	Framework service agreement for conveyor systems

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

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

Other financial obligations pursuant to Section 285 No. 3a HGB

There were other financial obligations from rental and lease agreements of EUR 249.1m (prior year: EUR 167.2m) (thereof to affiliated companies: EUR 0.0m (as in the prior year)) as of the reporting date.

These obligations relate to the following items:

Other financial obligations

IN EUR M	
Rental agreements	249.0
Lease agreements	0.1
Total	**249.1**

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

There is also a purchase obligation for merchandise for the 2022 spring/summer season as of the reporting date.

Derivative financial instruments

As of the reporting date, forward exchange contracts totaled EUR 2,716.5m (prior year: EUR 2,202.1m), some of which displayed a positive market value of EUR 34.4m (prior year: EUR 21.4m) while others displayed a negative market value of EUR 72.9m (prior year: EUR 36.1m).

The designation of valuation units according to HGB was done in the following cases as of the reporting date:

The gross method was used to combine trade payables in USD with a volume of EUR 42.0m (prior year: EUR 28.1m) with forward exchange contracts totaling EUR 42.0m (prior year: EUR 28.1m) (positive market value: EUR 2.9m (prior year: EUR 0.0m); negative market value: EUR 0.0m (prior year: EUR 2.1m)) in several portfolio hedges in order to hedge the currency risk. The gross method was used to combine receivables from the sale of goods to customers in CHF and SEK with a volume of EUR 108.2m (prior year: EUR 0.0m) with forward exchange contracts totaling EUR 108.2m (prior year: EUR 0.0m) (positive market value: EUR 0.0m (prior year: EUR 0.0m); negative market value: EUR 3.6m (prior year: EUR 0.0m)) in several portfolio hedges in order to hedge the currency risk. The effectiveness is measured prospectively using the critical terms match method and retrospectively using the dollar offset method. All value changes in derivatives are expected to be fully compensated in the future, as the critical features of underlying hedged items and hedging instruments match.

The net method was used to combine expected sales of goods to customers in CHF, GBP, NOK, PLN, CZK and SEK with a volume of EUR 2,229.0m (prior year: EUR 1,892.9m) with forward exchange contracts totaling EUR 2,229.0m (prior year: EUR 1,892.9m) (positive market value: EUR 12.8m (prior year: EUR 20.9m); negative market value: EUR 69.3m (prior year: EUR 21.5m)) in several portfolio hedges in order to hedge the currency risk. The net method was used to combine expected orders of goods to customers in USD and GBP with a volume of EUR 336.6m (prior year: EUR 230.7m) with forward exchange contracts totaling EUR 336.6m (prior year: EUR 230.7m) (positive market value: EUR 18.8m (prior year: EUR 0.2m); negative market value: EUR 0.1m (prior year: EUR 10.8m)) in several portfolio hedges in order to hedge the currency risk. The effectiveness is measured prospectively using the critical terms match method and retrospectively using the dollar offset method. All value changes in derivatives are expected to be fully compensated in the future, as the critical features of underlying hedged items and hedging instruments match.

Furthermore, PLN, USD and GBP forward exchange contracts were entered into for which the valuation units were either terminated due to changed expectations regarding the occurrence of the hedged transaction or which were intended for short-term liquidity bottlenecks and which as such are not part of a valuation unit within the meaning of Section 254 HGB as of the reporting date. These forward exchange contracts have a volume of EUR 0.7m (prior year: EUR 50.3m) (positive market value: EUR 0.0m (prior year: EUR 0.3m); negative market value: EUR 0.1m (prior year: EUR 1.7m)). Furthermore, the interest component of all hedging instruments are not classified as part of a valuation unit, positive market value: EUR 9.1m (prior year: EUR 0.8m), negative market value: EUR 6.0m (prior year: EUR 1.6m). A corresponding provision for potential losses from pending transactions was recognized equivalent to the negative freestanding market value.

Related parties disclosures

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

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

Appropriation of profits

The Supervisory Board and the Management Board propose that the unappropriated profit of ZALANDO SE for the past fiscal year of EUR 508,086,479.96 be carried forward in full.

Corporate governance declaration

The declaration of conformity of the Management Board and Supervisory Board on the German Corporate Governance Code pursuant to Section 161 AktG from December 2021 is published on the company's website (https://corporate.zalando.com/sites/default/files/media-download/Zalando_SE_Declaration_of_Conformity_December_2021.pdf).

Signing of the 2021 financial statements

Berlin, February 28, 2022

The Management Board

Robert Gentz David Schneider James M. Freeman, II David Schröder Dr. Astrid Arndt

3.2 Attachment A to the notes

Statement of changes in fixed assets for fiscal year 2021

IN EUR M	Acquisition and production cost				
	Jan 1, 2021	Additions	Disposals	Reclassifications	Dec 31, 2021
Intangible assets					
Internally generated software	209.2	27.0	0,0	19.2	255.4
Industrial rights, similar rights and assets and licenses in such rights and assets	76.9	2.8	–0.0	2.3	82.0
Prepayments and internally generated software under development	30.0	38.6	–0.3	–21.3	47.0
	316.1	68.4	–0.3	0.2	384.3
Property, plant and equipment					
Buildings on third-party land	1.1	0.4	–0.1	0.6	1.9
Plant and machinery	21.0	3.0	–0.5	1.2	24.7
Other equipment, furniture and fixtures	86.4	12.4	–3.1	4.1	99.8
Prepayment and assets under construction	6.6	4.2	–0.2	–6.0	4.5
	115.0	19.8	–3.9	–0.2	130.8
Financial Assets					
Shares in affiliated companies	1,040.0	88.5	–0.0	0,0	1,128.5
Loans to affiliated companies	671.7	454.1	–274.9	0,0	851.0
Equity investments	2.5	0,0	0,0	0,0	2.5
	1,714.2	542.6	–274.9	0,0	1,981.9
	2,145.3	630.9	–279.1	0.0	**2,497.1**

	Accumulated amortization, depreciation and write-downs					Carrying amounts	
	Jan 1, 2021	Additions	Disposals	Reclassifications	Dec 31, 2021	Dec 31, 2021	Dec 31, 2020
	153.1	38.6	0,0	0,0	191.7	63.6	56.0
	51.0	9.8	−0.0	0.1	60.8	21.2	25.9
	1.5	0,0	0,0	−0.1	1.4	45.6	28.6
	205.6	48.4	−0.0	0,0	253.9	130.4	110.5
	0.2	0.3	−0.0	0,0	0.5	1.4	0.9
	5.4	4.1	−0.0	0,0	9.5	15.2	15.6
	54.0	11.4	−2.4	0,0	63.0	36.8	32.5
	0,0	0,0	0,0	0,0	0,0	4.5	6.6
	59.6	15.8	−2.5	0,0	72.9	57.9	55.4
	76.6	0,0	0,0	0,0	76.6	1,052.0	963.5
	2.2	0,0	0,0	0,0	2.2	848.8	669.5
	2.0	0,0	0,0	0,0	2.0	0.4	0.4
	80.8	0,0	0,0	0,0	80.8	1,901.2	1,633.4
	345.9	64.2	−2.5	0,0	**407.6**	**2,089.4**	1,799.4

3.3 Attachment B to the notes

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

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

Baillie Gifford & Co., Edinburgh, United Kingdom, informed us on October 8, 2019 that its holding of voting rights exceeded the threshold of 10% of the voting rights pursuant to Sections 33 and 34 WpHG on October 1, 2019 and came to 11.68% (corresponding to 29,515,750 voting rights) on this day. On this day, its holding of voting rights through instruments according to Section 38 (1) No. (1) WpHG came to 0.10% (corresponding to 260,300 voting rights), its holding of voting rights through instruments pursuant to Section 38 (1) No. 2 WpHG came to 0.010% (corresponding to 30,445 voting rights).

T. Rowe Price Group, Inc., Baltimore, Maryland, USA, informed us on August 25, 2020 that its holding of voting rights had fallen below the threshold of 5% pursuant to Sections 33 and 34 WpHG on August 20, 2020 and came to 4.93% (corresponding to 12,532,937 voting rights) on this day.

Mr. Anders Holch Povlsen informed us on April 9, 2021 that his holding of voting rights exceeded the threshold of 10% of the voting rights pursuant to Sections 33 and 34 WpHG on April 8, 2021 and came to 10.01% of the voting rights (corresponding to 26,111,595 voting rights) on this day.

AKO Capital LLP, London, United Kingdom, informed us on May 20, 2021 that its holding of voting rights exceeded the threshold of 3% of the voting rights pursuant to Sections 33 and 34 WpHG on May 19, 2021 and came to 3.18% (corresponding to 8,298,999 voting rights) on this day.

Kinnevik AB (publ), Stockholm, Sweden, informed us on June 18, 2021 that its holding of voting rights had fallen below the threshold of 3% of the voting rights pursuant to Sections 33 and 34 WpHG on June 18, 2021 and came to 0.01% (corresponding to 23,658 voting rights) on this day.

Vanguard World Fund, Wilmington, Delaware, USA, informed us on July 29, 2021 that its holding of voting rights exceeded the threshold of 5% of the voting rights pursuant to Sections 33 and 34 WpHG on July 26, 2021 and came to 5.006% (corresponding to 13,093,502 voting rights) on this day.

BlackRock, Inc., Wilmington, Delaware, USA, informed us on October 27, 2021 that its holding of voting rights exceeded the threshold of 3% of the voting rights pursuant to Sections 33 and 34 WpHG on October 27, 2021 and came to 4.72% (corresponding to 12,360,650 voting rights) on this day. On this day, its holding of voting rights through instruments according to Section 38 (1) No. (1) WpHG came to 0.24% (corresponding to 629,432 voting rights), its holding of voting rights through instruments pursuant to Section 38 (1) No. 2 WpHG came to 0.02% (corresponding to 40,800 voting rights).

Allianz Global Investors GmbH, Frankfurt/Main, Germany, informed us on December 22, 2021 that its holding of voting rights exceeded the threshold of 3% pursuant to Sections 33 and 34 WpHG and came to 4.92% (corresponding to 12,888,562 voting rights) on December 22, 2021. On this day, its holding of voting rights through instruments according to Section 38 (1) No. 2 WpHG came to 0.12% (corresponding to 312,195 voting rights).

Morgan Stanley, Wilmington, Delaware, USA, informed us on December 28, 2021 that its holding of voting rights exceeded the threshold of 3% pursuant to Sections 33 and 34 WpHG on December 22, 2021 and came to 3.11% (corresponding to 8,153,285 voting rights) on this day. On this day, its holding of voting rights through instruments according to Section 38 (1) No. (1) WpHG came to 1.33% (corresponding to 3,486,557 voting rights), its holding of voting rights through instruments pursuant to Section 38 (1) No. 2 WpHG came to 0.23% (corresponding to 606,549 voting rights.

Combined management report

4.1 Background to the group

4.1.1 Business model

Our vision at Zalando is to be the Starting Point for Fashion. Ever since it was founded in 2008, Zalando has enjoyed tremendous growth and is viewed as a major success story in European e-commerce today. But we won't stop here: It is our goal to be the one destination that customers naturally gravitate to whenever they think about fashion and lifestyle. The most important building block on that journey is to transition our business towards a true platform business. And we are well on the way: Zalando has a very strong reach and engagement with more than 48 million active customers and partnerships with more than 5,800 global and local fashion and lifestyle brands as well as almost 7,000 brick-and-mortar stores, complemented by private label products.

We are a European online fashion and lifestyle platform connecting customers and brand partners, offering our customers a one-stop shopping experience, "endless choice" of fashion and lifestyle articles, a "seamless convenience" experience among others with predominantly free delivery and returns as well as diverse payment options wrapped into an inspirational and "tailored digital experience". We offer our customers multiple propositions, spanning from Fashion to Beauty, Pre-owned, Zalando Lounge or our membership program Zalando Plus.

To become the Starting Point for Fashion, Zalando continued to further expand within Europe and opened online shops in six new markets in Central and Eastern Europe in 2021. Our localized offering addresses the distinct preferences of the customers in each of the 23 European markets served: Austria, Belgium, Croatia, the Czech Republic, Denmark, Estonia, Finland, France, Germany, Ireland, Italy, Latvia, Lithuania, Luxembourg, the Netherlands, Norway, Poland, Slovakia, Slovenia, Spain, Sweden, Switzerland and the United Kingdom. Our pan-European logistics network with 12 fulfillment centers allows us to serve our customers throughout Europe in a fast and seamless manner.

We are convinced that Zalando is distinctly positioned in the European fashion market:

On the customer side, we have tremendous reach as the most visited fashion destination and app in Europe, serving more than 48 million active customers. We continue to invest in acquiring more customers across existing as well as new markets and building deeper relationships with them through permanent investments in improving our core fashion proposition and elevating distinct propositions, giving our customers even more reasons to visit and shop.

On the partner side, we have access to more than one million articles from global brands, fast fashion, more sustainable fashion and local brands as well as access to a unique network of brick-and-mortar stores connected to our platform. Those relationships are built on mutual trust and we will continue to invest in these in the coming years.

Our two-sided platform is based on our existing specific capabilities and infrastructure. Our own logistics network is the biggest purpose-built logistics network for fashion in Europe with

12 fulfillment centers across seven countries. We have already cumulatively invested more than EUR 1bn in this network and we will add more than seven new fulfillment centers by 2025. In addition, we have strong know-how in technology and data. We have a team of over 2,000 software engineers and data scientists, focusing on improving and innovating the experience for our customers and the services for our partners.

4.1.2 Group structure

Governance and control

The Zalando group is managed by its ultimate parent company ZALANDO SE, which was founded in 2008. With its registered office in Berlin, Germany, ZALANDO SE bundles all management functions and generates the vast majority of group revenue. 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, integration services and private labels. ZALANDO SE has full control over all subsidiaries, either indirectly or directly. Supplementary information concerning the separate financial statements is presented in section 2.6.

The Management Board of ZALANDO SE consists of five members who are jointly responsible for managing the group. Robert Gentz (Co-CEO, co-founder) is responsible for the company's strategy as well as Corporate Affairs, David Schneider (Co-CEO, co-founder) defines and drives the strategy in regards to brand partners and leads Zalando's efforts in sustainability as well as Diversity & Inclusion. David Schröder is Chief Financial Officer (CFO) at Zalando and takes on responsibility for finance, operations and governance. Dr. Astrid Arndt joined the Management Board as new Chief People Officer (CPO) in April 2021. She is leading and building the People and Organization teams. Jim Freeman completes the Management Board as Chief Business and Product Officer (CBPO), overseeing the development, marketing, and growth of Zalando's consumer offerings.

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 it reports on the audit to the annual general meeting. Zalando's Supervisory Board consists of long-term investors, employees and independent experts.

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 the emerging businesses Zalando Marketing Services, the personal style advice service Zalon and the integrator business Tradebyte.

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). Due to this, the segment reporting includes a reconciliation column to reconcile the segment figures (including internal and external transactions) to the consolidated group figures (showing only external transactions).

4.1.3 Group strategy

Our starting point vision and platform strategy

Our vision is to be the Starting Point for Fashion, i.e. to be the destination consumers naturally gravitate to whenever they think about fashion and lifestyle. At our Capital Markets Day on March 16, 2021, we reiterated our vision and our platform strategy, which we communicated for the first time in 2019 and which we have pursued since.

In order to achieve this long-term vision, we focus on three core strategic dimensions. Firstly, we center our efforts around our customers by growing our active customer base and being relevant to a broad audience across Europe. To turn our more than 48 million active customers into loyal customers and fans of Zalando, we constantly strive to deepen the relationships with our existing customer base to play an indispensable role in their lives, by providing them with an increasing number of compelling propositions and constantly innovating the way we engage with them. Secondly, we focus on driving the transition towards a true platform business model, enabling business opportunities for brands and retailers by connecting them to consumers across Europe. In addition to offering a standard wholesale model, we are therefore particularly focused on providing brands and retailers with a direct-to-consumer sales channel via our Partner Program and Connected Retail program and support them with additional value added services such as Zalando Fulfillment Solutions (ZFS) and Zalando Marketing Services (ZMS). Thereby we aim to connect the products of our brand and retail partners with the European digital consumer, resulting in endless choice for our customers and significant business opportunities for our partners. Finally, we are committed to building a fashion platform with a net-positive impact for people and the planet by leveraging the scale of our platform and the strong relationships with our partners to become part of the solution. In order to get there, we are focusing on reducing our own emissions and aiming for a 1.5°C pathway in line with the Paris Agreement, and will encourage our partners to do the same. Furthermore, we encourage brands to produce and customers to choose more sustainable products. And last but not least, we will continue to shape new business models that move the fashion industry from linear to circular.

Based on our vision, strategy and our strong commitment to become a sustainable fashion platform, there is an immense opportunity ahead of us: By 2025, we aim to triple the size of our business to more than EUR 30bn worth of GMV, compared to 2020 GMV levels and to generate about EUR 20bn worth of revenues. At the same time, we strive to increase the share of our Partner Business GMV (Partner Program and Connected Retail) to 50% of our Fashion Store GMV. In the long term, we want to achieve a 75% share for items shipped under the Partner Program with ZFS and a marketing intensity on our platform of 3% to 4% of our GMV.

Already today we are one of Europe's leading online destinations for fashion and lifestyle in a market, which is forecasted to be worth EUR 450bn over the next few years. As the boundaries between offline and online fashion are blurring and more and more sales are touched by digital elements, we aspire to serve more than 10% of the total European fashion market in the long-term. Facing this immense market opportunity, our number one priority remains to deliver continued strong growth and to significantly and consistently outperform the European online fashion market segment, with a GMV CAGR of 20-25% between 2020 and 2025.

Market environment

Since spring 2020, the COVID-19 pandemic has had a considerable impact on the European fashion industry and 2021 has been another challenging year for the industry, with brick-and-mortar stores being closed at the beginning of the year across many European countries and with footfall only gradually recovering in the months thereafter. The COVID-19 pandemic thereby accelerated a change in the fashion industry that has long been in progress, with consumer demand shifting from offline to online channels. According to Euromonitor, online penetration has stepped-up significantly from 17% in 2019 to 30% in 2021. Brands and retailers are adapting their distribution strategies and are increasingly focused on going digital and direct to consumer (DTC) to meet the customer where they are and to capture the online opportunity. Our largest partners build their brand and drive their business both on their own e-commerce destination as well as on the Zalando multi-brand platform. For some partners, where lockdowns forced the closure of offline retail channels in early 2021, online sales channels like the Connected Retail program of Zalando have become a core revenue stream.

Strategic priorities

As outlined before, we follow three strategic priorities to unlock our growth potential in the coming years: growing our active customer base and deepening customer relationships, transitioning to a true platform business model and building a sustainable fashion platform with a net-positive impact for people and the planet.

Consumers

Customer acquisition

Already today, we serve more than 48 million active customers, with a growth of almost 10 million active customers or 25.3% year-on-year. We aim to be relevant to a broad audience across Europe, addressing more than 450 million inhabitants. This shows that we have substantial leeway to grow: When looking at the population penetration, i.e., the percentage of the total population in a market that shopped with us last year, we realize that just over 10% of the European population shops actively at Zalando. However, in our top five markets, where we already have a strong local proposition, more than 20% of the population are active customers. We aim to increase the penetration of all other markets to where our top-five markets are already today.

In order to continuously grow our active customer base, we leverage proven marketing tools, as evidenced by a sizable increase in our absolute as well as relative marketing spend compared to the prior-year. We aim to win in our markets locally and to promote our portfolio of distinct propositions. With this in mind, we have evolved our marketing approach, stepping away from purely emotional storytelling to engaging our customers along the entire user journey – guiding them through from upper to lower marketing and sales funnel – to create more awareness for Zalando, to shape Zalando's brand perception in all markets, and to drive interest for our offers and products by telling stories that are customer insights driven and values based. We delivered six global campaigns including our Here to Stay campaign, along with many locally relevant campaigns such as our Eastern European expansion and the launch of our first Beauty campaign in Germany in partnership with Sephora.

Country Expansion

During 2021, we expanded the Zalando propositions to six new markets, the first country expansion since 2018 and the first at this scale since 2013. We launched our offering to customers in Croatia, Estonia, Latvia, Lithuania, Slovakia, and Slovenia. During 2022, we are adding two to three additional markets to Zalando markets. Among them are Hungary and Romania. In total we will have expanded the Zalando experience to more than 100 million additional inhabitants across these eight to nine markets.

Customer retention by improving our propositions

We strive to create deep customer relationships to play an indispensable role in our lives, by constantly improving our core fashion experience (endless choice, seamless convenience, tailored digital experience) and elevating distinct propositions, e.g. Beauty, Pre-owned, Zalando Lounge and Zalando Plus.

Improving our core fashion shopping experience

Our aim is to drive fashion-inspiration through endless choice. In 2021 we were able to offer our customers a broad choice of on average one million styles in Germany, a +50% growth vs. 2020. While we had a stable growth of 15% year-on-year in the Wholesale assortment, the partner assortment grew over 81% year-on-year. Additionally, we launched our long-distance delivery program, which offers customers the possibility to choose among a wider assortment of items and allows them to buy almost every product and every size on stock, regardless of where it is stored in our European logistics network. Before, customers had access only to a subset of the overall assortment available to the specific market. With the further expansion of our offer and experience, we continue to take strides towards becoming the Starting Point for Fashion for an increasing number of customers.

We strive to create a best-class, highly enjoyable and personal digital fashion e-commerce experience built around truly relevant search, discovery, advice, and inspiration.

Elevating distinct propositions

In 2021, we focused on improving our individual propositions – Fashion, Lounge, Beauty, Designer, Pre-owned and Plus. We increased the level of personalization of our browsing experience through the launch of the Style Profile as well as providing our customers with Personal Size Advice, helping our customers find their perfect fit, making them feel included and confident. In addition, we focused on the further expansion of our Beauty proposition, our Designer and Pre-owned offer, with more than 250,000 Pre-owned items. In Beauty, we entered a key strategic partnership with Sephora, offering our customers an increased assortment range of >300 prestige Beauty brands as well as a Premium Beauty experience. In Designer, we launched 70 new brands while elevating the onsite look of the Designer experience – both on its homepage and product detail pages. Through Zalando Plus, Zalando's premium membership program, we offered consumers early and exclusive access to an increasing selection of exclusive product launches including partnerships with Puma x Pamela Reif, The North Face x

Raeburn, Pepe Jeans x Beckhams, Levi's, and New Balance. With our Zalando Plus experience, we strive to offer our customers the very best Zalando experience with benefits like Plus Early Access or premium delivery. Already today we have more than one million Zalando Plus subscribers.

Our focus in 2022 will be to further improve and to better connect our customer propositions, allowing our customers to enjoy even more benefits as well as to further strengthen our Zalando Plus membership program.

Seamless convenience

We strive to build Europe's leading fashion fulfillment platform. We focus on improving our customers' convenience in their online fashion journey, from discovery to payments, delivery and returns. To improve overall convenience, we launched four new mobile payment methods (Trustly, Swish, Mobilpay, Vipps) and introduced invoice payment in Poland. To reduce delivery times and support our growth with additional fulfillment capacity, we added two new hub warehouses in Poznan, Poland, and in Rotterdam, the Netherlands, as well as one spoke warehouse in Madrid, Spain. Finally we opened two new return centers as well as five additional Customer Care Service Centers. In order to offer our Zalando Plus members the best shopping experience, we expanded our proprietary last mile network Zalando Premium Logistics (ZPL) from 61 to 129 cities in 2021. Thus, more customers can now benefit from same and next day delivery. To continue to make our customers' lives easier, we are committed to reducing remaining frictions in our customer journey and offering our customers a comparatively better, localized convenience experience.

Partners

In order to be the Starting Point for Fashion for our customers, we are transitioning to a true platform business model. We establish deep and lasting relationships with globally and locally relevant brands as well as retailers. These close partnerships with more than 5,800 fashion brands enable us to scale our offering and create strong benefits for customers, partners and Zalando.

Wholesale

Back in 2008, Zalando was founded as a classical wholesale-retail e-commerce business. Today, Wholesale still represents around 70% of the group's Gross Merchandise Volume. In our Wholesale business, Zalando buys the inventory from brands and sells it for its own account to its customers across 23 markets. We think about the Wholesale assortment as a "must-have", since we would not credibly be the starting point, if we did not have a compelling offer here. Customers specifically come to Zalando to shop for these brands and products, and they have helped us to build an ever-increasing customer base of more than 48 million active customers.

Partner Program and Connected Retail

In 2021, we further accelerated our platform transition by making it easier to access and attractive to use. Our Partner Program and Connected Retail program enable brands and retailers to sell their merchandise via Zalando, while they maintain full control over their offer, content and pricing. By making it easier to join our platform and to internationalize, we were once again able to almost double our Partner Business GMV in 2021 and have reached a Partner share of 30% of our Fashion Store GMV (+6 percentage points year-on-year). We further internationalized the Partner Program by adding new markets in Eastern Europe and started to leverage the Partner Program for additional categories which have so far seen very low adoption (e.g. Beauty via Sephora). By 2025, we aim to scale our Partner GMV share to 50% of our Fashion Store GMV.

A core contributor to the overall success of our Partner Business is Connected Retail, which enables brick-and-mortar stores to sell directly through Zalando, enabling them to reach millions of online customers. Our customers can thereby enjoy their favorite local shops and benefit from higher availability of key styles throughout the season. Particularly during lockdown periods in the first half of 2021, in which many stores were forced to close, we supported our partners by waiving commissions on Connected Retail sales and offering them more financial flexibility. In 2021, we tripled the number of stores in our network to almost 7,000. Over the course of 2021, we successfully expanded our program to Switzerland, Belgium, Austria, France and Italy, making a total of 13 markets in the Connected Retail network.

Zalando Fulfillment Solutions (ZFS)

Zalando Fulfillment Solutions is an optional service for partners in our Partner Program, which allows our partners to leverage our European logistics network to increase their customer reach (i.e being available in more of the Zalando markets) and satisfaction as measured by an increased Net-Promoter-Score while at the same time reducing complexity and cost of cross-border e-commerce in Europe. In 2021, we have seen a strong adoption of ZFS, with revenues and items growth exceeding both more than 105% year-on-year, resulting in a ZFS item share of all Partner Program items of 55%. By 2025, we aim for a ZFS item share of 75%. With more and more partners in our Partner Program, we have been working on developing and testing further fulfillment services tailored to their needs, in particular Zalando Returns Solutions (ZRS) and Zalando Shipping Solutions (ZSS), which enable cross-border shipping for partners and simplify partners' return logistics flow respectively. Going forward we aim to provide even more tailored fulfillment solutions to match our partners' needs by further integrating the individual services and developing new services to help Partner Program and also Connected Retail partners to scale their business.

Zalando Marketing Services (ZMS)

ZMS serves as a holistic data-driven marketing service for fashion and lifestyle brands across many different channels, offering impactful solutions along the entire marketing and sales channel and enabling our partners to connect their brand to more than 48 million customers at Zalando and beyond. We consult partners on their marketing strategy and offer a wide range of marketing services. For our partners to drive their business growth and to increase the visibility of their products, we offer performance driven campaign solutions with sponsored listing ads. Furthermore, we also provide partners with the opportunity to run brand marketing campaigns to engage further with customers on Zalando, to tell their brand stories and to build brand awareness in a multi-brand environment. In addition, our partners also enjoy access to aggregated consumer insights, allowing them to better understand their customers as well as their relative positioning and performance and integrate these customer and competitive insights in their product design process as well as go-to-market strategy.

In 2021, we continued to improve on our ad formats and targeting features as well as our auction design and automation. This enables us to provide even more relevant and intuitive assortment to our customers, as well as increasing the return on investment of our partners – no matter their size. As per end of 2021, ZMS advertising revenues account for roughly 2% of our Fashion Store GMV and we are thus well on track to reach our long-term ambition of 3-4% of GMV. In 2022 and beyond, ZMS will be focused on further improving existing advertising products in terms of ease of use and efficiency, developing new unique offerings in the space of brand followership and influencer marketing and strengthening customer engagement and sense of connection with our partner brands.

People and planet

In order to win the hearts and minds of our customers, we want to build a diverse, inclusive and sustainable fashion platform and thereby be part of the solution for the sustainability challenges we face. Today the fashion industry is part of the problem. It accounts for ~4% of global greenhouse gas emissions and is repeatedly criticized for the lack of transparency along the global fashion supply chain. And our customers clearly demand change – nine out of ten Gen Z customers believe companies have responsibility to address environmental and social issues. We therefore have set ourselves six specific focus areas with regards to the planet, our products and people: carbon footprint, packaging, sustainability assortment, circularity, human rights and skilling.

During 2021, we took great strides to drive the industry for the better. We invested a sizable million euro amount in our sustainability efforts, with the largest share going into climate action, such as the switch from natural gas to biogas, and more sustainable packaging, where we started the roll-out of paper shipping bags to replace plastic shipping bags. The new paper bags are made either from 100% recycled materials or a mix of recycled content and other responsible virgin fiber sources. We also started to switch from single use plastic void fill to paper void fill across all Zalando Lounge warehouses.

We will continue to drive our sustainability agenda forward in 2022. This requires us even more to ingrain our sustainability and Diversity & Inclusion efforts into all teams and parts of Zalando. In order to drive significant change, our efforts and goals need to be carried by every single team and person driving Zalando. Already today, sustainability is not a single function, but is being thought of and worked on in many different areas of our business. Sustainability assortment in our buying teams or sustainable packaging in our logistics team, for example. By the end of 2022, our approach to our D&I and sustainability strategy will have matured and anchored with in-depth initiatives and goals across all Zalando teams.

4.1.4 Non-financial report

Additional information regarding our sustainability strategy and our separate combined non-financial report in accordance with Section 289b (1) and (3) and Section 315b (1) and (3) HGB (German Commercial Code) is provided in a separate sustainability progress report which we will be published on the company's website on the same day as the combined management report.

4.1.5 Management system

Zalando's most important key financial performance indicators (KPI) for corporate performance management are GMV (Gross Merchandise Volume), 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. GMV is the value of all merchandise sold to customers after cancellations and returns and including VAT. GMV excludes, in contrast to the KPI revenue, the B2B revenue (e.g. Partner Program commission, Zalando Marketing Services or Zalando Fulfillment Solutions fees) and non-product B2C revenue (e.g. service charges like express delivery fees or Zalando Plus subscription fees). Whereas GMV is recorded at the time of the customer order, revenue is recorded at the point in time when control over the promised goods and services is transferred. In contrast to Zalando's EBIT, the adjusted EBIT is EBIT before equity-settled share-based compensation, restructuring costs and non-operating one-time effects. Capex is defined as the sum of the payments for investments in fixed assets and intangible assets excluding payments for the acquisition of companies. Moreover, the net working capital is the sum of inventories and trade receivables less trade payables and similar liabilities.

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

- **Site visits[1]:** The number of series of page views from the same device and the same source (via websites, mobile sites, tablet sites or apps) during a relevant period are the site visits. Increasing site visits drive GMV and revenue growth through a higher number of orders and higher advertising revenue.
- **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 12 months (based on the reporting date) is considered active.
- **Number of orders:** In addition to GMV and 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.
- **Average GMV per active customer:** The average value of all merchandise sold to active customers after cancellations and returns and including VAT, over the last 12 months.
- **Average orders per active customer:** The average number of orders placed by active customers during the last 12 months, irrespective of returns.

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

- **Average basket size:** Like the number of orders placed, the average basket size has a direct effect on the revenue of the group. The GMV divided by the number of orders in the last 12 months of the reporting period is the average basket size.

4.1.6 Research and development

Zalando develops key software components of its platform internally. The developments relate to a structured, labor-intensive software development process aimed at adding new functionalities and/or enhancing the existing system landscape by significant system functionalities along the entire value and process chain. This ensures that Zalando's technology platform supports the company strategy and 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 2021, the group recognized development costs of EUR 83.6m (prior year: EUR 65.6m), of which EUR 44.3m relates to assets under development (prior year: EUR 30.8m). The increase in development costs is attributable to the increasing number of markets and customer propositions as well as the ongoing improvements and continued innovation of existing products and processes in pursuit of Zalando's vision to be the Starting Point for Fashion.

Research costs were immaterial.

4.2 Report on economic position

4.2.1 Macroeconomic and sector-specific environment

With much of the world under COVID-19-related restrictions through 2020 and 2021, the European fashion industry has faced exceptionally challenging conditions. However, after a severe decline in the total volume of fashion sales in Europe during 2020, the market rebounded strongly over the course of 2021. Fashion sales in Europe in fiscal year 2021 amounted to EUR 386bn, an increase of 7.1% compared to 2020. Yet, the market remained 15% below the pre-pandemic level of 2019.

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Against the backdrop of a recovering fashion market, e-commerce sales continued to outgrow stationary retail sales, despite a higher prior-year baseline. According to data from the management consulting firm, McKinsey, the European online fashion market grew to a total trading volume of EUR 116bn in 2021, representing an increase of 24%. The online channel therefore represented roughly 30% of the overall European fashion market, compared to 26% the year before.

Similarly, the German fashion market, the largest in Europe, recovered throughout 2021, with a trading volume of EUR 67bn, reflecting an increase of 6.3% compared to the prior year.

4.2.2 Business development

2021 has been a stellar year for Zalando, both from an operational and a financial perspective. We closed 2021 with an outstanding growth of Gross Merchandise Volume (GMV): GMV grew by 34.1% year-on-year to EUR 14,348.4m (prior year: EUR 10,696.0m). The group recorded revenue of EUR 10,354.0m (prior year: EUR 7,982.0m), growing by 29.7% compared to 2020. Both GMV and revenue growth accelerated compared to 2020. The strong performance can be wholly attributed to strong organic growth across all segments and markets as a result of a continued shift in customer demand from offline to online and fueled by the attractiveness of our platform business for brands and brick-and-mortar stores. For 2021, we recorded an adjusted EBIT of EUR 468.4m, corresponding to a margin of 4.5% (prior year: 5.3%).

In 2021, we pursued growth through new customer acquisition in new and existing markets and through continuous investments in our customer proposition, including assortment, convenience, fashion services and digital experience to create deep and lasting customer relationships. Moreover, we expanded into six new markets (Croatia, Estonia, Latvia, Lithuania, Slovakia and Slovenia). At the same time, we are progressing with our multi-proposition growth strategy and goal to create loyal and deep customer relationships. We expanded Zalando Plus, our membership program, internationally to three additional markets (France, the Netherlands and Italy) and launched a new benefit, Plus Early Access, enabling Zalando Plus members to shop hot releases in the Fashion Store before everyone else and to get early access to selected campaigns at Zalando Lounge. In addition, we launched new features on our platform to further improve the personalized browsing experience, with 'In Your Sizes' (based on Size & Fit algorithms) and 'Your Brands' browse filters for example as well as a values-based browsing experience. The latter enables more customers to shop in a more sustainable way based on the causes and values they care about, and more easily understand the important work that our brand partners are doing to scale more sustainable practices.

As a result, our customer base grew strongly by 25.3% year-on-year to 48.5m active customers at the end of 2021 (prior year: 38.7m). Customer order frequency reached a new all-time high of 5.2 orders per active customer over the course of 2021, driving GMV per active customer up to EUR 295.8.

On its path to becoming the Starting Point for Fashion, Zalando has continued the platform transition at pace, building strong partnerships with brands and retailers. Our Partner Program continuously aims to elevate the ways brands can engage with customers. Our Connected Retail offer creates an opportunity for retailers to access Europe's largest fashion e-commerce platform. The platform transition achieved several milestones in 2021, giving us confidence in the significant future growth potential of the Partner Program and Connected Retail.

In 2021, we were able to not only intensify existing partner brands' utilization of the platform, but also add a significant number of new partners and retailers (>1,000 in 2021 vs. >550 in 2020). The resulting substantial increase of choice and availability for Zalando customers moves us closer to our goal of being the Starting Point for Fashion. For the first time, the number of items offered via Zalando's Partner Program surpassed the ones offered via Wholesale. In line with the growing share of the Partner Program, Zalando's online integration solution, Connected Retail, where we offer brands and retail partners a model that allows them to connect their brick-and-mortar stores to the Zalando platform, saw almost 7,000 actively trading stores connected by year end (2020: 2,400 at year-end). As a result of the strong adoption of our two direct-to-consumer channels for fashion brands and retailers, our Partner GMV share (including Partner Program and Connected Retail), reached 30% in the final quarter of 2021. Furthermore, our partners increasingly leveraged Zalando Fulfillment Solutions (ZFS) to ship their merchandise in a customer-centric and cost-efficient way to customers in our international markets. As a consequence, the number of items shipped with ZFS during 2021 grew by more than 104% and the ZFS item share grew to around 55% of all Partner Program items shipped. Zalando Marketing Services (ZMS), our marketing unit connecting brands to consumers, experienced a strong rebound of demand for its services during 2021, after a difficult prior year dominated by crisis-driven marketing budget cuts. ZMS revenue reached 2% of our Fashion Store GMV by year-end and we are now back on track to reach our long-term ambition of 3-4% of GMV.

In order to fully win the hearts and minds of our customers, we constantly invest in our do.MORE sustainability strategy, which we launched in fall 2019, with our vision to become a sustainable fashion platform with a net-positive impact for people and the planet. To shape our industry's future for the better, we have set ourselves six specific focus areas for change in our sustainability strategy: carbon footprint, packaging, sustainability assortment, circularity, human rights, and skilling. We switched the heating fuel in our German fulfillment centers to 100% biogas and engaged intensely with our partners to reduce their carbon emissions. In addition, we have made strides regarding our ambition to apply the principles of circularity. This will require new ways of thinking and collaborating, and we recently progressed with investments and new pilots that will help us to identify more scalable solutions. For example, in the design and manufacture stage, we recently scaled a collection from our private label ZIGN with all products being designed for circularity, meaning that products are made from safe, recycled or renewable materials, and are made to last longer, to be reused and to be recycled. We continue to develop our pre-owned proposition, through which customers can reuse and resell their clothes in a convenient way.

The company reconfirms its commitment of reaching the diversity target in the Management Board by 2023 and amplified its D&I targets in a 2021 update of its Diversity & Inclusion strategy, putting additional emphasis on its customers and partners, for example with targets to improve the accessibility of all websites enabling customers with disabilities to navigate them more easily. To offer customers an inclusive and more diverse assortment, over the past year Zalando reached out to new partners from groups that are underrepresented in the European fashion industry and onboarded more than 40 black-owned brands.

4.2.3 Economic situation

Financial performance of the group

Further information consolidated statement of comprehensive income

2021 has been overall a stellar year regarding our financial performance, delivering the most outstanding year in terms of GMV growth since being a publicly listed company. GMV and revenue grew by 34.1% and 29.7%, respectively. Growth was particularly strong during the first half of 2021 on the back of pandemic induced lockdown measures during most of Q1 and early Q2, forcing stationary retail to close or allow customers to enter only under strict restrictions and an overall limited customer mobility across our markets. However, as vaccination efforts across Europe gained pace and restrictions were gradually lifted during late spring and early summer, both GMV and revenue growth rates started to normalize during the second half of 2021, especially compared to the elevated levels achieved during the first half of 2021. The strong performance of Zalando's Partner Business also contributed very strongly to our overall success over the past 12 months.

In addition to the positive growth momentum during 2021, we recorded an adjusted EBIT of EUR 468.4m (prior year: EUR 420.8m), representing a 4.5% margin (prior year: 5.3%). Profitability was supported by a strong topline performance and lower logistics costs relative to sales, driven by higher capacity utilization rates across our European logistics network, lowering the logistics costs per order, and a pandemic induced temporary reduction of return rates throughout the year. The adjusted EBIT margin remained below last year's level mainly resulting from deliberately increased investment in our customer acquisition and retention. In 2021, we recorded an increased EBIT of EUR 424.7m (prior year: EUR 367.0m).

With a net income of EUR 234.5m, Zalando continues to be clearly profitable overall.

Condensed consolidated income statement

IN EUR M	Jan 1 – Dec 31, 2021	As % of revenue	Jan 1 – Dec 31, 2020	As % of revenue	Change
Revenue	10,354.0	100.0%	7,982.0	100.0%	0.0pp
Cost of sales	-6,027.7	-58.2%	-4,587.8	-57.5%	-0.7pp
Gross profit	**4,326.2**	**41.8%**	**3,394.2**	**42.5%**	**-0.7pp**
Fulfillment costs	-2,599.3	-25.1%	-2,055.1	-25.7%	0.6pp
Marketing costs	-930.3	-9.0%	-660.9	-8.3%	-0.7pp
Administrative expenses	-393.2	-3.8%	-319.2	-4.0%	0.2pp
Other operating income	32.8	0.3%	26.7	0.3%	0.0pp
Other operating expenses	-11.5	-0.1%	-18.7	-0.2%	0.1pp
Earnings before interest and taxes (EBIT)	**424.7**	**4.1%**	**367.0**	**4.6%**	**-0.5pp**
Financial result	-70.5	-0.7%	-48.6	-0.6%	-0.1pp
Earnings before taxes (EBT)	**354.3**	**3.4%**	**318.5**	**4.0%**	**-0.6pp**
Income taxes	-119.7	-1.2%	-92.4	-1.2%	0.0pp
Net income	**234.5**	**2.3%**	**226.1**	**2.8%**	**-0.6pp**

Adjusted EBIT

IN EUR M	Jan 1 – Dec 31, 2021	Jan 1 – Dec 31, 2020
Earnings before interest and taxes (EBIT)	**424.7**	**367.0**
Share-based payments	57.3	53.8
One-time effects	-13.6	–
Adjusted Earnings before interest and taxes (EBIT)	**468.4**	**420.8**

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

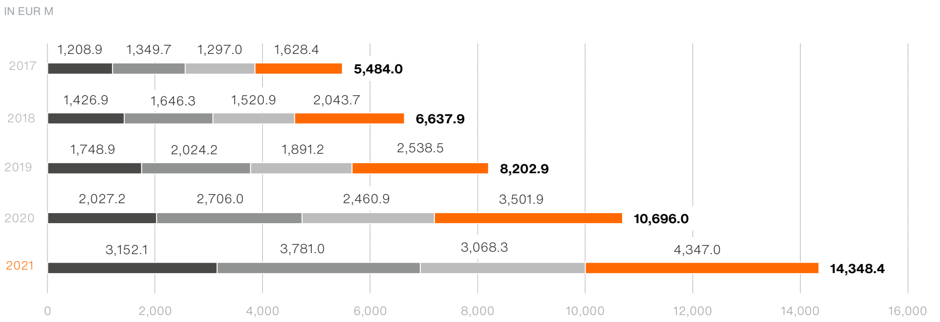
Key figures*

	Jan 1 – Dec 31, 2021	Jan 1 – Dec 31, 2020	Change
Financial key performance indicators			
Gross merchandise volume (GMV) (in EUR m)	14,348.4	10,696.0	34.1%
Revenue (in EUR m)	10,354.0	7,982.0	29.7%
EBIT (in EUR m)	424.7	367.0	15.7%
EBIT (as % of revenue)	4.1	4.6	–0.5pp
Adjusted EBIT (in EUR m)	468.4	420.8	11.3%
Adjusted EBIT (as % of revenue)	4.5	5.3	–0.7pp
Net working capital (in EUR m)	–162.1	–87.4	–85.4%
Capex (in EUR m)	–332.9	–250.0	33.2%
Non-financial key performance indicators			
Site visits** (in millions)	7,461.3	5,393.6	38.3%
Active customers (in millions)	48.5	38.7	25.3%
Number of orders (in millions)	252.2	185.5	35.9%
Average GMV per active customer (in EUR)	295.8	276.3	7.1%
Average orders per active customer	5.2	4.8	8.5%
Average basket size (in EUR)	56.9	57.7	–1.3%

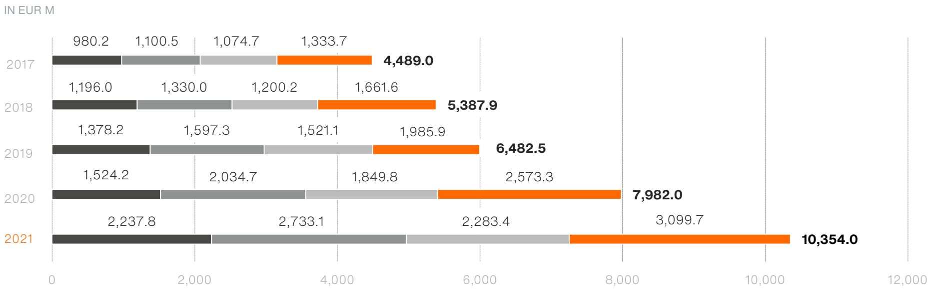
*) For an explanation of the key performance indicators, please refer to the glossary.
**) Due to a change in consent management following the GDPR introduction, some of the data is estimated using a statistical method.

Results of the operations[2]

GMV by quarter (2017 – 2021)



Revenue by quarter (2017 – 2021)



In 2021, GMV increased by EUR 3,652.4m to EUR 14,348.4m. This corresponds to year-on-year GMV growth of 34.1%, with an exceptionally strong performance during the first half-year of 2021 of 46.7% compared to the same period in 2020. Revenue increased by 29.7% from EUR 7,982.0m to EUR 10,354.0m in 2021. Our Partner Business (incl. Partner Program and Connected Retail) showed a very strong performance in 2021, reaching 30% of Fashion Store GMV at year-end (prior year: 24.4%). This also explains to a large degree the gap of around 4.4 percentage points between GMV and revenue growth. At the same time, our B2B-services (ZFS and ZMS) contributed strongly to group revenue.

Growth has been fueled – as described above – by the continued shift of customer demand from offline to online in light of lockdown restrictions put in place in most European countries during the first half year. The strong Partner Program performance in 2021 clearly reflects the success of our platform transition efforts. We saw our 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 500 new partners joined the Partner Program in 2021. 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.

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

Along with that, Zalando saw exceptionally strong active customer growth with many first-time fashion online shoppers during 2021. As of December 31, 2021, the group had 48.5 million active customers compared to 38.7 million active customers as of December 31, 2020, corresponding to an increase of 25.3%, the highest since 2013. At the same time, we were able to deepen our relationships with both our existing as well as new customers as evidenced by an increased order frequency and average GMV per active customer growing by 8.5% and 7.1%, respectively. This was driven by continuous improvements in our customer experience and the ongoing expansion of our customer proposition portfolio.

We experienced a favorable trend of return rates in 2021, continuing a development already observed in the prior year. While we believe there are significant temporary elements to this change in customer behavior, such as pandemic-related category mix, we consider part of this trend to be more permanent in nature. The latter is driven by a greater share of the rest of Europe-region in the overall GMV and revenue mix, which has structurally lower return rates than the DACH-region, as well as our continued efforts and initiatives to enhance Size & Fit advice.

The development of 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 respectively, as fashion sale periods are typically particularly pronounced towards season end.

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. In addition to a very strong growth momentum, we recorded an adjusted EBIT of EUR 468.4m in 2021 (prior year: EUR 420.8m), representing a 4.5% margin (prior year: 5.3%). Profitability was supported by a strong topline performance and lower fulfillment costs relative to sales, driven by higher utilization rates across our European logistics network and an ongoing return rate benefit.

In 2021, we recorded EBIT of EUR 424.7m (prior year: EUR 367.0m). EBIT comprises expenses from equity-settled share-based payments of EUR 57.2m (prior year EUR 53.8m). In Q2 2021, other income of EUR 13.6m realized due to the commencement of a sublease for office space has been eliminated from EBIT as a non-recurring item. In the prior-year period, no restructuring costs or other one-time effects were recognized.

Cost of sales rose by 31.4% year-on-year from EUR 4,587.8m to EUR 6,027.7m, resulting in a year-on-year gross margin decrease to 41.8% (prior year: 42.5%). Gross margin decreased mainly as a result of increased price investments to ensure competitiveness against a highly promotional environment as stores reopened as well as business mix changes in terms of category mix and country mix.

The fulfillment cost ratio as a percentage of revenue improved by 0.6 percentage points from 25.7% in 2020 to 25.1% in 2021. The positive trend in our fulfillment cost ratio is mainly a result of a higher level of capacity utilization driven by the strong business volumes and improved order economics on the back of an ongoing, yet mostly temporary benefit from the lower than usual return rate. To serve our customers even better in the coming years and to enable our growth ambition of more than EUR 30bn in GMV by 2025, we will expand our European fulfillment network. During 2021, we added two new logistics sites to a total of 12 warehouses across seven countries. In addition, we rolled out our membership program Zalando Plus beyond Germany to France, the Netherlands and Italy, where customers can enjoy free same-day and next-day premium delivery and early access to exclusive fashion releases, further strengthening our brand and convenience proposition as well as more sustainable operations and packaging options.

Over the course of 2021, we capitalized on customer acquisition opportunities, as evidenced by an increased marketing cost ratio of 0.7 percentage points to 9.0%, compared to the prior-year. The increase in our marketing cost ratio can primarily be attributed to increased investments in customer acquisition and brand building also relating to the recent launch of six new markets in Central and Eastern Europe as well as several campaigns that focused on distinct propositions such as Zalando Lounge, Beauty and Pre-owned to take full advantage of the customer demand opportunity. The year-on-year increase in the marketing cost ratio also reflects a baseline effect as result of a significant cut in marketing investments at the beginning of the COVID-19 pandemic in spring 2020.

Administrative expenses increased from EUR 319.2m in 2020 to EUR 393.2m in 2021, implying a decrease of 0.2 percentage points in proportion to revenue. The improvement in administration cost ratio was driven by a continued focus on driving efficiencies across the business.

The financial result of EUR 70.5m (prior year: EUR 48.6m) is predominantly impacted by higher interest expenses of convertible bonds of EUR 24.6m (prior year: EUR 10.2m). This is due to the issue of convertible bonds in August 2020 resulting in a full year impact on interest expenses of convertible bonds in the fiscal year. Additionally, higher negative interest in the other financial results are recorded because of valuation effects in PLN.

The income taxes of EUR 119.7m mainly comprises current taxes amounting to EUR 109.7m (prior year: EUR 100.9m).

With net income of EUR 234.5m, Zalando continues to be clearly profitable overall.

Results by segment

The condensed segment results for 2021 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 2021

IN EUR M	Fashion Store	Offprice	All other segments	Total	Recon-ciliation	Total group
Revenue	9,342.3	1,457.5	302.8	11,102.6	–748.6	10,354.0
(prior year)	*(7,257.7)*	*(978.1)*	*(196.0)*	*(8,431.8)*	*(-449.8)*	*(7,982.0)*
thereof intersegment revenue	689.8	2.3	56.5	748.6	–748.6	0.0
(prior year)	*(403.9)*	*(1.3)*	*(44.7)*	*(449.8)*	*(-449.8)*	*(0.0)*
Earnings before interest and taxes (EBIT)	316.3	97.5	6.5	420.3	4.4	424.7
(prior year)	*(296.9)*	*(82.3)*	*(-12.4)*	*(366.8)*	*(0.2)*	*(367.0)*
Adjusted EBIT	349.5	104.8	9.7	463.9	4.4	468.4
(prior year)	*(341.7)*	*(88.0)*	*(-9.1)*	*(420.6)*	*(0.2)*	*(420.8)*

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 2021

IN EUR M	DACH	Rest of Europe	Fashion Store
Revenue	4,220.9	5,121.4	9,342.3
(prior year)	*(3,319.0)*	*(3,938.7)*	*(7,257.7)*
thereof intersegment revenue	313.9	375.8	689.8
(prior year)	*(219.8)*	*(184.1)*	*(403.9)*
Earnings before interest and taxes (EBIT)	352.9	–36.6	316.3
(prior year)	*(267.3)*	*(29.6)*	*(296.9)*

In 2021, revenue grew by 28.7% in the Fashion Store segment. This development reflects the exceptionally strong performance during the first half of the year as continued lockdown measures across Europe shifted consumer demand further towards digital destinations as well as the return to normal during the final two quarters of 2021.

The strong growth was achieved through the outstanding increase in our number of active customers and our continued customer experience improvements, which drove customer engagement and spending. Profitability remained strong, yet declined year-on-year in the Fashion Store segment, with a realized EBIT margin of 3.4% in 2021, a decrease of 0.7 percentage points compared to the prior year. Profitability was supported by a strong topline performance and lower logistics costs, driven by higher utilization rates across our European logistics network and an ongoing return rate benefit. Compared to the prior year, deliberately increased investments in customer acquisition and retention as well as price investments to ensure competitiveness in a highly promotional retail environment during the second half of 2021 led to a decrease in profitability.

In 2021, the Offprice segment revenue increased by an exceptionally strong 49.0% compared to the corresponding prior-year period on the back of increased investments in customer acquisition. As a result, profitability in terms of EBIT margin decreased by 1.7 percentage points from 8.4% in 2020 to 6.7% in 2021. The strong growth performance of the Offprice segment in 2021 is mostly attributable to the outstanding development of Zalando Lounge, while at the same time our outlet store business recovered to pre-pandemic sales volumes as temporary lockdown restrictions for non essential brick-and-mortar retail only had a smaller impact on overall performance. The EBIT margin decrease was mainly due to a lower gross profit and increased marketing spend.

All other segments grew 54.5% in 2021, driven by a particularly strong performance from Zalando Marketing Services (ZMS), which benefited from the strong demand of our brand partners for our advertising products. Besides using ZMS to drive sales on the platform by increasing visibility for certain products, our partners also increased their investments in branding campaigns to build their brand equity on Zalando.

The EBIT margin in all other segments improved by 8.5 percentage points to 2.1% in 2021 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, 2021	Jan 1 – Dec 31, 2020	Change
Expenses for equity-settled share-based payment	**57.2**	**53.8**	**3.4**
Fashion Store	45.8	44.8	1.0
Offprice	7.7	5.7	2.0
All other segments	3.8	3.3	0.4

Furthermore, the one-time effect for income generated from the commencement of a sublease amounting to EUR 13.6m is predominantly allocated to the Fashion Store segment. More information can be found in the description of the development of adjusted EBIT in the section financial performance of the group. In 2020, EBIT contained no one-time effects.

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, 2021	Jan 1 – Dec 31, 2020
Cash flow from operating activities	**616.2**	**527.4**
Cash flow from investing activities	**–335.9**	**–217.8**
Cash flow from financing activities	**–639.8**	**1,354.1**
Change in cash and cash equivalents	–359.6	1,663.6
Exchange-rate related and other changes in cash and cash equivalents	3.5	3.9
Cash and cash equivalents at the beginning of the period	2,644.0	976.5
Cash and cash equivalents as of December 31	**2,287.9**	**2,644.0**

In fiscal year 2021, Zalando generated a positive cash flow from operating activities of EUR 616.2m (prior year: EUR 527.4m). The increase compared to the prior-year period of EUR 88.8m was driven by the strong increase of net income before non-cash positions as well as the positive impact from net working capital, partly offset by the development of other assets/liabilities.

The impact from net working capital on the operating cash flow, including the change of inventories and trade and other receivables less trade payables and similar liabilities, increased by EUR 79.9m. This results primarily from the development of the trade payables due to higher business volume and an increased use of reverse factoring (see also section 2.2.3, Financial position for details on net working capital development).

Cash outflow from investing activities is mainly impacted by capital expenditure (capex), being the sum of the payments for investments in property, plant and equipment and intangible assets, amounting to EUR 332.9m (prior year: EUR 250.0m). Capex primarily included investments in the logistics infrastructure, relating to the fulfillment centers in the Netherlands, Poland, Germany and France, as well as capital expenditures on internally developed software. In 2020, cash flow from investing activities contained an inflow of cash in the form of 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.

Consequently, the free cash flow remained on the prior-year level at EUR 283.2m (prior year: EUR 284.5m).

Cash flow from financing activities is EUR -639.8m (prior year: EUR 1,354.1m). The year-on-year difference of EUR 1,993.9m was attributable to cash outflows of EUR 375.0m in connection with the repayment of the revolving credit facility (RCF) in 2021, which had originally been drawn in Q1 2020. Another factor affecting the development of the cash flow from financing activities was the spend for share buybacks of EUR 200.0m in May, June and July 2021. The main reason for the difference in comparison to the prior year was, however, the cash inflow from the issue of convertible bonds in August 2020. In Q3 2020, we 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.

As a result, cash and cash equivalents decreased by EUR 356.1m during the year, resulting in Zalando carrying cash and cash equivalents of EUR 2,287.9m as of December 31, 2021.

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, 2021, an amount of EUR 375.0m, originally drawn in 2020, was paid back under the revolving credit facility. An amount of EUR 110.3m 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, 2021		Dec 31, 2020		Change	
Non-current assets	1,901.4	27.6%	1,560.0	33.6%	341.4	21.9%
Current assets	4,995.6	72.4%	4,934.8	66.4%	60.8	1.2%
Total assets	**6,897.0**	**100.0%**	**6,494.8**	**100.0%**	**402.1**	**6.2%**

Equity and liabilities

IN EUR M	Dec 31, 2021		Dec 31, 2020		Change	
Equity	2,218.8	32.2%	2,151.1	38.9%	67.7	3.1%
Non-current liabilities	1,580.7	22.9%	1,404.2	12.5%	176.4	12.6%
Current liabilities	3,097.5	44.9%	2,939.5	48.6%	158.0	5.4%
Total equity and liabilities	**6,897.0**	**100.0%**	**6,494.8**	**100.0%**	**402.1**	**6.2%**

Compared to December 31, 2020, Zalando's total assets increased by EUR 402.1m (up 6.2%). The statement of financial position is dominated by working capital, cash and cash equivalents as well as equity.

Right-of-use assets (non-current) had a carrying amount of EUR 584.2m as of December 31, 2021 (prior year: EUR 479.8m). The increase is driven by the new lease contracts, starting in Q1 2021, for an office building and two new outlet stores in Germany as well as a warehouse in the Netherlands. The steep rise was partly offset by the commencement of a sublease agreement for office space in Q2 2021, resulting in a receivable from sublease of EUR 61.4m as of December 31, 2021 recognized under financial assets.

In 2021, investments in intangible assets amounted to EUR 91.7m (prior year: EUR 110.7m), while investments in property, plant and equipment totaled EUR 244.6m (prior year: EUR 179.5m).

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 2021, additions related to capitalized development costs as well as to prepayments and assets under development amounted to EUR 87.8m (prior year: EUR 98.4m), of which EUR 48.5m is contained in prepayments and assets under development (prior year: EUR 63.6m).

Inventories in 2021 mainly represent goods required for Zalando's Wholesale business. The inventories increased from EUR 1,361.2m to EUR 1,547.4m in the fiscal year, resulting from higher business volume combined with rising stock inbound levels to increase availability and thus customer satisfaction in light of ongoing supply chain disruptions affecting the fashion industry since the second half of 2021.

Trade and other receivables as reported on December 31, 2021 are all current. The increase in trade and other receivables to EUR 727.4m (prior year: EUR 602.5m) is primarily attributable to the higher sales volume throughout the whole year.

Equity rose from EUR 2,151.1m to EUR 2,218.8m in the fiscal year. The EUR 67.7m increase primarily stems from the positive net income in the period and from share-based compensation, partly offset by repurchases of treasury shares as part of the share buy-back program in May and June 2021. In the reporting period, the equity ratio changed from 33.1% at the beginning of the year to 32.2% as of December 31, 2021.

Lease liabilities have a carrying amount of EUR 679.9m as of December 31, 2021 (prior year: EUR 516.7m); of that amount EUR 579.0m is non-current and EUR 101.0m is current. The increase compared to December 31, 2020, resulted from new lease contracts in Q1 2021. They represent the discounted financial obligations resulting from lease contracts.

Trade payables and similar liabilities rose from EUR 2,050.5m in 2020 to EUR 2,437.0m 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 599.8m were transferred to various factors as of December 31, 2021 (December 31, 2020: EUR 449.8m). These items were recognized in the statement of financial position under trade payables and similar liabilities.

Current borrowings dropped by EUR 377.7m to EUR 0.0m as of December 31, 2021, following the EUR 375.0m repayment of Zalando's revolving credit facility in Q1 2021, which was originally drawn in the first quarter of 2020.

Net working capital, consisting of inventories and trade and other receivables less trade payables and similar liabilities, decreased from EUR -87.4m in the prior year to EUR -162.1m as of December 31, 2021. The lower net working capital is driven by an increase in trade payables and similar liabilities in fiscal year 2021, partly offset by increasing inventories and trade and other receivables due to overall higher business volume.

Overall assessment

The Management Board views the business development in 2021 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 continuing accelerated consumer demand shift towards digital offerings particularly during the first six months of 2021 in light of continued COVID-19 restrictions, while the business environment started to normalize during the second half of the year. In addition, the company's focused execution of the starting point for fashion strategy and the platform transition supported the strong growth momentum in the past year. Zalando focused on growth opportunities, made significant strategic investments and remained profitable in the process. EBIT slightly decreased compared to the prior year as a result of increased investments in customer acquisition and retention, while on the other hand the company continued to see increasing operating leverage across its European fulfillment network.

The company's upgraded annual targets were achieved in 2021. The 2020 management report anticipated GMV growth of 27-32%, revenue growth in a 24-29% corridor, adjusted EBIT between EUR 350.0m to EUR 425.0m and capital expenditure of around EUR 350.0m to EUR 400.0m. After exceptionally strong and profitable growth in the first quarter, Zalando raised its revised full year guidance in the quarterly statement for Q1 2021 published on May 6, 2021. The latest modified guidance for GMV growth of 31-36%, and revenue growth of 26-31% was met with actual GMV and revenue growing by 34.1% and 29.7%, respectively. The adjusted EBIT of EUR 468.4m for fiscal year 2021 is well in-line within the upper half of the guided range of between EUR 400.0m and EUR 475.0m. In addition, the company specified its capex guidance for the full-year in the quarterly statement for Q2 2021 from the range of EUR 350.0m to EUR 400.0m to the low-end of the initial guidance. The investments made last year served to expand our European logistics network and our technology infrastructure as part of our platform strategy. The capital expenditures amounted to EUR 332.9m at year end.

Overall, in 2021 the group achieved very strong growth and continued to be clearly profitable as well as cash generating.

4.2.4 Employees

At the end of 2021, we had 17,043 employees (prior year: 14,194), representing an increase of 20% compared to the prior year. The average headcount increased by 2,192 (up 16%) from 13,868 to 16,060 compared to prior year. The increase was mostly observed in customer fulfillment, predominantly in the logistics division. Compared to the previous year it grew by 1,527 employees (up 20%) due to the strong growth in business volume and the required increase in warehouse capacity, especially in the German warehouses (Lahr, Mönchengladbach and Erfurt). Offprice increased by 404 employees (up 27%) compared to prior year. This was due to capacity increases following the higher demand for employees in the markets and the ongoing store network expansion.

4.3 Risk and opportunity report

- Identifying and quickly acting on opportunities as well as mitigating risks is essential for the continued success of 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, we have exposure to macroeconomic, sector-specific, and company-specific risks and opportunities. This risk and opportunity report presents the risks and opportunities considered material for Zalando and provides an overview of the implemented risk and opportunity management system.

4.3.1 Risk and opportunity management system

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

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

RMS elements

RMS objectives

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

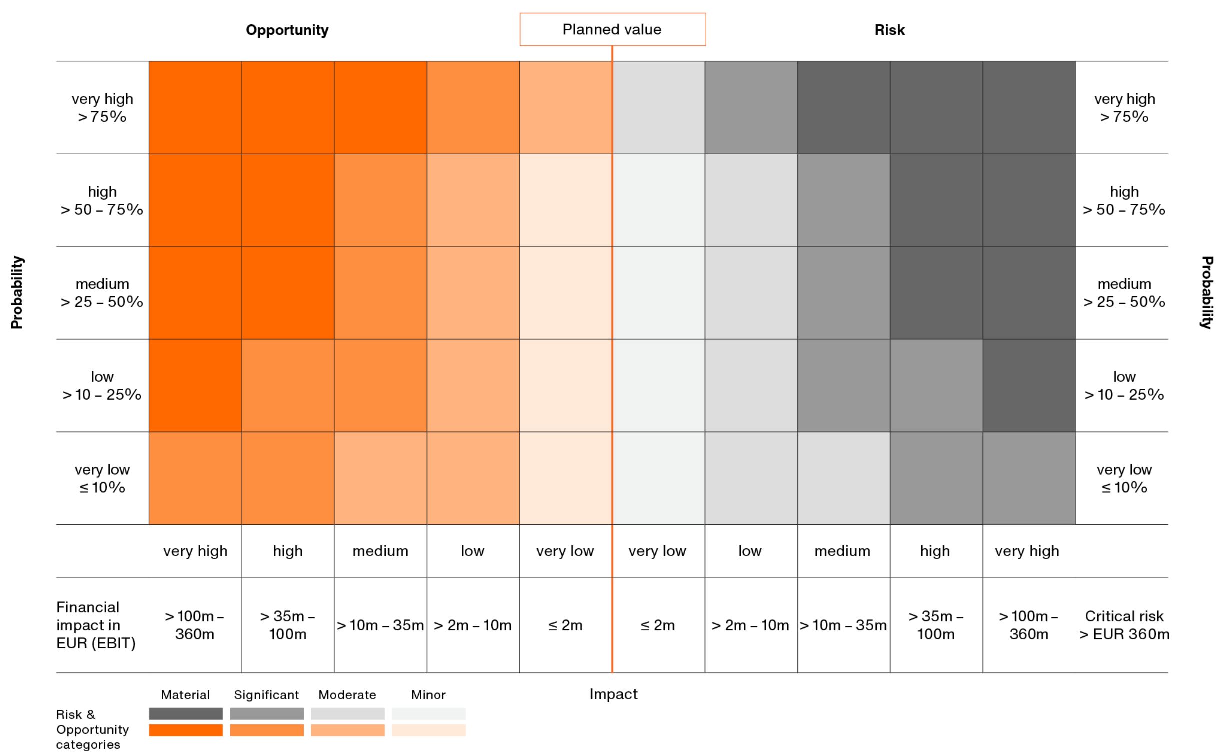
Using multiple instruments, such as workshops and self-assessments, the identification and assessment of risks and opportunities is carried out by both the risk and opportunity owners during day-to-day operations and the Risk Management Team on a half-yearly basis. Moreover, we have implemented an ad-hoc 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 single risks and opportunities identified are evaluated 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 our reputation. We separately track risks that exceed EUR 360m as business critical, since they might threaten us 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 sphere of responsibility. Depending on the type, characteristics, and assessment of the risks, different risk strategies are applied by the risk owners to reduce the risk, taking into account costs and effectiveness. Risk strategies can be risk avoidance, reduction, transfer to a third party, or acceptance.

Risk and opportunity management improvements and reporting

The Risk Management Team reports on the overall risk and opportunity situation to the senior management, the Management Board, and the Supervisory Board on a half-yearly basis. 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 financial reporting controls

In addition to the overall RMS, we have 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 including management reporting. 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 Compliance & Risk Team in the Finance department, as well as risk-based assessments performed by Internal Audit.

4.3.2 Illustration of risks

Overall, we identified no risks or risk clusters that might threaten ZALANDO SE as a going concern. The following table provides an overview of our risk clusters and a comparison with 2020. 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

		2021		2020	
ID – risk cluster	Assess-ment	Impact	Probability	Impact	Probability
Markets, competition and strategy					
1. Competitive environment	Material	High	Medium	High	Medium
2. Investments	Moderate (change)	↓ Low	Low	Medium	Low
Reputation and sustainability					
3. Brand and image	Significant	Medium	Medium	Medium	Medium
4. Environmental and social responsibility	Significant (change)	↑ Medium	↑ Medium	Low	Low
Operational					
5. Logistics	Material	↓ High	Medium	Very High	Medium
6. People	Significant	Medium	High	Medium	High
7. Buying & sales	Material	↓ High	Medium	Very High	Medium
8. Indirect procurement	Moderate (change)	↓ Low	High	Medium	High
9. IT security	Material	High	Medium	High	Medium
10. IT systems and infrastructure	Significant	Medium	Medium	Medium	Medium
11. User experience	Material	High	Medium	High	Medium
Compliance					
12. Regulatory changes	Significant	Medium	↓ Medium	Medium	High
13. Data protection	Material	High	Medium	High	Medium
14. Fraud and bribery	Significant	Medium	Medium	Medium	Medium
15. Product compliance	Moderate	Low	↑ Medium	Low	Low
16. Competition law	Significant	Medium	↑ Medium	Medium	Low
17. Other legal aspects	Moderate (change)	↓ Low	Low	Medium	Low
Financial					
18. Liquidity, counterparty, currency & interest	Significant	High	Very Low	High	Very Low
19. Other financial risks	Significant	Medium	Medium	Medium	Medium

Compared to the 2020 risk and opportunity report, no changes were noted in the material clusters assessment. Further details with respect to our material risk clusters are presented below.

The current Russia-Ukraine conflict might further impact our operations, and we are therefore monitoring potential risks and mitigating measures that would need to be taken. The illustration presented in this risk and opportunity report has not been adjusted to account for such potential risks. At the moment, the development of events is subject to considerable uncertainty and as such the impact on our business will be monitored and assessed going forward.

Competitive environment

With the reopening of economies, we expect competition from offline and online retail to intensify in the upcoming year. We believe that our strong customer propositions and partner relationships, together with our strategy to advance sustainability and Diversity & Inclusion across the industry, are providing us with a competitive advantage in order to continue meeting our ambitious targets.

To maintain constant growth, we will continue to invest in deepening customer relationships, building and scaling our propositions across the markets we operate in. We will also continue to invest in digital partner services to be the starting point for fashion for European consumers and the preferred multi-brand platform for our partners.

Logistics

Our logistic services have benefited from investments made in our logistics network in terms of location, capacities and number of service providers and were thus able to maintain a stable risk profile in comparison to last year's assessment.

The quality of service towards the end customer has continued to benefit from our long-term capacity planning and the continued build-out of our European logistics network, which is supported by strategic long-term business relationships with key middle and last mile carriers. In addition, we have continued to increase the resilience of our logistics network.

Aiming to support our recent expansion, our logistic services have been able to strategically position themselves closer to new regions as a move to enhance direct injection, and ultimately reduce logistics costs. This improvement is reflected in the increased delivery service quality in the markets that we serve.

Buying & sales

As corona restrictions were lifted across the world, economies started to normalize. As noted above, in 2022 we expect an increasingly competitive business environment across all fashion segments as competition is expected to intensify both online and offline. Building on the strong performance in 2021 as well as robust customer and partner relationships we are well positioned to further meet our ambitious growth targets.

However, during 2021 a new challenging dynamic developed where worldwide shortages in production and first mile transportation capacities are increasing the risk of supply chain disruptions and, together with increased raw material prices and transportation costs, put pressure on margins. COVID-19 related lockdown measures in Vietnam and energy shortages in China have been leading to production delays, and subsequent price increases. At the same time, geopolitical unrest in the Asia Pacific region is contributing to the issue, by reducing trade in goods and services, including energy sources, as well as curbing international investments. While significant uncertainties remain, we have adjusted our sourcing and commercial plans to account for delays in our main sourcing countries and continue to monitor our inbound supply chain very closely and maintain close exchange with our brands and partners.

Furthermore, consumer price inflation in the EU is expected to rise to its highest level since the beginning of the Global Financial Crisis (2008), mainly driven by higher energy prices and freight costs. Depending on the magnitude of headline inflation and the speed of subsequent wage increases, this could lead to a slowdown in pent-up demand or even have a negative impact on the fashion share of wallet. At the moment, significant uncertainty remains, particularly for the first half of the year. We have proactively taken measures on the supply side to strengthen our resilience and are prepared to steer our business in an agile manner.

Overall, we are confident that our platform model will prove to be resilient, allowing us to mitigate some of the risks by leveraging multiple alternative sources of supply via Wholesale, Partner Program and Connected Retail.

Apart from the effects described above, we are exposed to the regular seasonal effects of the business. 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 Business.

IT security

Given that we collect, process, store and transmit significant amounts of data, including confidential, sensitive, commercial and personal information, and considering the rise of cybercrime in the aftermath of the pandemic, the risk of data breaches which can be manifested in various ways is heightened and may cause reputational damage, regulatory penalties or the inability to execute key business processes.

Failure to prevent or mitigate data loss, theft, misuse or other security breaches or vulnerabilities affecting our technology, products and systems or that of our contractors or customers could result in severe damage, which may ultimately involve loss of revenue (now and in the future), compensation payments to customers and partners, extortion payments, reputational damage or repair efforts.

Zalando is a potential target due to its size, data pool and dependence on IT systems. To best protect the integrity, confidentiality and availability of our assets, systems and data, we take proactive approaches to identifying, detecting, protecting, responding to and recovering from cybersecurity threats and incidents as part of our Information Security Management System.

User experience

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 teams identify and suggest relevant developments, make adjustments and coordinate the corresponding implementation with other teams. Results of the constant innovations in 2021 were for example enhancements in the product experience for customers searching for beauty products, the improvement of the customer app experience via single-sign-on, and further enhancements of the personal size and style profile.

Data protection

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. We also work with external partners and law firms to ensure that we correctly interpret the legal requirements and respond with appropriate actions.

4.3.3 Illustration of opportunities

Given the definition of an opportunity as a positive deviation from planned values, we identified no material opportunity that could result in us significantly overachieving our ambitious long-term goals. Going outside the materiality boundary, our major initiatives such as deepening customer relationships, enabling partners on our platform, as well as our market expansion 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.

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, beauty and lifestyle. In 2021, strong customer acquisition and the continued development of existing customer relationships were key growth drivers.

We see personalization and inspiration as two crucial elements in tailoring the Zalando customer experience, and we continuously strive to create exceptional, locally relevant experiences across a range of propositions that customers value. In 2021, together with Sephora, the world’s leading omnichannel prestige beauty retailer, we announced the launch of a strategic partnership to create the ultimate online prestige beauty destination for millions of our customers and reinvent how they shop beauty online. We are continuing the international roll-out of our subscription-based membership program Zalando Plus, enhancing the program for French customers and expanding to the Netherlands and Italy.

To make further progress towards being the Starting Point for Fashion in 2022, we will focus on engaging customers across our multi-proposition strategy.

Strategic partnerships

Our relationship with partners continues to be a key growth driver for Zalando. We are convinced that strong partnerships built on trust will continue to enable us to become the Starting Point for Fashion.

Our Partner Program enables brands and retailers to sell their merchandise via our platform, while they maintain full control over their offer, content and pricing. Our 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.

During the COVID-19 pandemic, we have supported our partners in maneuvering through the crisis by enabling them to sell their offline inventory via our platform using our Connected Retail business.

Throughout 2021 brands and retailers continued to accelerate their online activities through our platform. Being an enabler for our partners' digital strategy, we are supporting them in driving sales, building their brand, managing their supply chain, delivering customer insights, and even realizing their sustainability and D&I targets.

To support this journey, we are 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 makes our logistics infrastructure available to partners. Through this service, our partners can leverage our logistic capabilities to scale up their businesses internationally and provide our delivery standards to their customers across Europe.

Local market focus

We strive to meet our ambitious goals by closely analyzing each local market to gain deeper insights into local customer needs and to spot emerging trends and by turning these insights into actions for both new and existing markets.

In 2021, we further expanded our footprint across Europe, launching Zalando in six new markets – Croatia, Estonia, Latvia, Lithuania, Slovakia, and Slovenia. We also created additional growth opportunities for existing and new brand partners by expanding our Partner Program to all six recently launched markets. Being active in 23 markets across Europe, we provide a wide assortment of clothing, footwear, accessories and beauty products of more than 5,800 brands.

Sustainable fashion and lifestyle platform

Looking ahead, we are accelerating our efforts to build a sustainable fashion and lifestyle platform. To deliver on our sustainability strategy, we will continue to bring more sustainable brands in our Fashion Store, work closely with sustainable industry partners and further increase the sustainability of our private label products.

To further support our do.MORE sustainability strategy and to take the next steps in solving further fashion needs of our customers, we are introducing new business practices for circularity along the full product lifecycle, from developing design standards to investing in new recycling technologies. These efforts support our goal to apply the principles of circularity and extend the life of at least 50 million fashion items by 2023 as outlined in our sustainability strategy.

Our Diversity & Inclusion strategy is also an integral part of our efforts to build a sustainable fashion platform. In 2021, we designed a holistic D&I strategy that supports our aim to be inclusive by design, bringing to life the diversity of our talents, leaders, customers and partners.

4.4 Outlook

- Continued recovery expected for fashion retail in Europe and Germany.
- Online fashion sales are expected to grow by 8% – 10%[3] in Europe in 2022.
- Zalando aims to outperform the European online fashion segment and to gain further market segment share.
- GMV growth of 16% – 23% is expected for 2022, revenue growth forecast to be in a 12% – 19% corridor; adjusted EBIT expected between EUR 430.0m and EUR 510.0m.

4.4.1 Future overall economic and industry-specific situation

In 2022, the European fashion market is expected to continue its recovery from the significant hit the market has taken after the COVID-19 pandemic arrived in Europe in 2020 and to increase its growth by 9% to EUR 420bn[4]. For Germany, we believe the recovery is to come at a slower pace at 8.8%[5] with a trade volume of EUR 73bn[6], given that German fashion sales already recovered quite strongly during 2021 and are lagging pre-pandemic sales volumes by only 10%, whereas all other markets in Europe are still 13%[7] behind their pre-pandemic level.

Increasing inflationary pressures, a wait-and-see approach as the pandemic continues to evolve resulting in a decline in consumer confidence and the continuing tensions in global supply chains pose additional challenges for the European fashion industry.

Overall consumer price inflation in the EU is expected to rise to its highest level since the beginning of the Global Financial Crisis (2008), mainly driven by higher energy prices and container freight costs, which will increase prices for input products and services. Depending on the magnitude of headline inflation and the speed of subsequent wage increases, this could lead to a slowdown in demand or have a negative impact on the fashion share of wallet as consumers would need to reallocate to more essential expenditures like housing, food, transportation.

Supply chain disruptions pose another challenge for the fashion industry, as key manufacturing countries such as Vietnam, which suffered from ten weeks of lockdowns and China, which suffered from power cuts, may not be able to produce sufficient quantities to fulfil the expected customer demand.

The online fashion segment is expected to continue its growth of 8-10% in Europe in 2022. Segment growth is expected to come in at a similar level as the growth of the overall European fashion market, largely attributable to a baseline effect, as the overall fashion market has shrunk over the past couple of years, whereas online sales continued to grow strongly throughout the COVID-19 pandemic.

3) McKinsey, The state of fashion 2022
4) Euromonitor, Europe excl. Russia
5) Euromonitor, Europe excl. Russia
6) Euromonitor, Europe excl. Russia
7) Euromonitor, Europe excl. Russia

4.4.2 Future development of the group

Zalando is driven by its vision to be the Starting Point for Fashion and the fundamental conviction that our business model is key to our success: Growing our active customer base, building deep relationships with fashion customers and becoming a sustainable fashion platform for people and the planet will make Zalando even more relevant for our brand partners. And in close partnership with our brand partners, we will be able to offer the most attractive assortment and most inspiring content for customers to enjoy in a highly personalised and convenient way. We aim to continue to outgrow the online fashion segment and to further increase our market segment share as we remain convinced that this represents the value-maximising strategy for the company in the long term.

Over the past 24 months, we have experienced an exceptional operational and financial performance acceleration. Thanks to our platform strategy, we were in a prime position to capitalize on a step change in consumer e-commerce adoption and fashion brands' focus on digital offerings, which allowed us to support our ecosystem with waived commissions for brick-and-mortar stores during lockdown periods.

Based on this extraordinary acceleration in growth observed since spring 2020, which was particularly pronounced in the first half of 2021 with year-on-year GMV growth of 46%, we are well on track to achieve our medium-term growth target. As European consumers and economies are gradually returning back to a new normal, we have seen our growth rates start to normalize since summer of 2021. However, we are well on track to reach our 2025 GMV target of more than EUR 30bn.

For 2022, we are expecting a more volatile market environment driven by three key factors: Firstly, weakening consumer sentiment linked to the economic outlook and a wait-and-see approach as the pandemic continues to evolve. Secondly, continued supply chain disruptions causing supply shortages in certain areas particularly footwear and sports. Thirdly, rising inflation concerns which might have a further dampening effect on consumer demand in general and discretionary spending in particular. While we will not be able to fully isolate ourselves from these temporary market developments, we are confident that just like in the past our strong platform business model, our agile business steering approach and continued efficiency improvements will allow us to successfully navigate through this volatile market environment and to continue to outperform the European online fashion segment.

Consequently, Zalando expects to grow GMV in the range of 16% to 23% (EUR 16.6bn–EUR 17.6bn) for fiscal year 2022. In line with our platform transition strategy and increasing share of the Partner business, we expect revenue growth to trail GMV growth, resulting in revenue growth of 12% to 19% (EUR 11.6bn–EUR 12.3bn).[8] Similar to last year, this growth will not be evenly distributed across quarters. We expect lower than usual year-on-year growth in the first half and a significant reacceleration in the second half of 2022.

Zalando expects an adjusted EBIT of EUR 430.0m–EUR 510.0m, implying a margin of 3.7%–4.1% (EBIT EUR 365.0m–EUR 445.0m) (fiscal year 2021: adjusted EBIT of EUR 468.4m; EBIT of EUR 424.7m).

8) The company's expectation excludes a potential negative impact from the Russia/Ukraine armed conflict.

The company will continue to invest into logistics and technology to enable its long term growth ambition and plans capital expenditure of around EUR 400.0m – EUR 500.0m in 2022 (2021: EUR 332.9m).

4.4.3 Overall assessment by the Management Board of ZALANDO SE

Overall, the Management Board views the growth and success in fiscal year 2021 as truly remarkable and the economic position of Zalando as strong. Zalando delivered exceptional growth, made important long-term investments and maintained healthy profitability in the process. The company has grown considerably in all markets and has improved its market position further. In 2022, Zalando expects to continue to deliver strong business performance, although growth rates and profitability levels will be more normalized as European consumers and economies are gradually returning back to normal and the company is lapping strong prior year performance and facing a more volatile market environment.

Zalando's 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 and our expertise in fashion put Zalando in an excellent position to benefit from growing consumer demand for online offerings and the increased focus of fashion brands and retails on digital channels.

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

4.5 Supplementary management report to the separate financial statements of ZALANDO SE

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

4.5.1 Business activity

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

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

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

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

4.5.2 Economic situation of ZALANDO SE

The results of ZALANDO SE's operations are presented in the following condensed income statement and are broken down by type of expense within the company. It shows strong growth and solid profitability. Growth was particularly strong during the first half of 2021 on the back of lockdown measures that forced stationary retail to close or allowed customers to enter only under strict restrictions and an overall limited customer mobility across our markets. However, as vaccination efforts across Europe gained pace during late spring and early summer, revenue growth started to normalize during the second half of 2021.

Income statement of ZALANDO SE
according to the german commercial code (short version)

IN EUR M	Jan 1 – Dec 31, 2021	As % of sales	Jan 1 – Dec 31, 2020	As % of sales	Change in percentage points
Revenue	10,229.0	100.0%	7,913.6	100.0%	0.0pp
Own work capitalized	57.4	0.6%	49.6	0.6%	–0.1pp
Other operating income	150.6	1.5%	179.6	2.3%	–0.8pp
Cost of materials	–5,558.9	–54.3%	–4,294.9	–54.3%	–0.1pp
Gross profit	**4,878.1**	**47.7%**	**3,847.8**	**48.6%**	**–0.9pp**
Personnel expenses	–511.0	–5.0%	–430.0	–5.4%	0.4pp
Amortization and depreciation	–64.2	–0.6%	–66.1	–0.8%	0.2pp
Other operating expenses	–4,084.7	–39.9%	–3,086.6	–39.0%	–0.9pp
Operating result	**218.3**	**2.1%**	**265.1**	**3.3%**	**–1.2pp**
Financial result	**4.2**	**0.0%**	**–22.5**	**–0.3%**	**0.3pp**
Result from ordinary business activities	**222.5**	**2.2%**	**242.5**	**3.1%**	**–0.9pp**
Income taxes	–83.0	–0.8%	–72.6	–0.9%	0.1pp
Other taxes	–0.9	–0.0%	0.0	0.0%	–0.0pp
Net income for the year	**138.5**	**1.4%**	**170.0**	**2.1%**	**–0.8pp**
Operating result margin	2.1%	–	3.3%	–	–1.2pp

In the reporting period, Zalando increased its revenue by EUR 2,315.3m to EUR 10,229.0m. The strong performance can be wholly attributed to strong organic growth across all markets as a result of a continued shift in customer demand from offline to online and fueled by the attractiveness of our platform business for brands and brick-and-mortar stores.

The 29.3% increase in revenue is the result of a larger customer base and deepened customer relationships, as exemplified by an 8.5% increase in order frequency. The considerable rise in these revenue drivers was enabled by new customer growth in new and existing markets and through continuous investments in our customer proposition, including assortment, convenience, fashion services and digital experience to create deep and lasting customer relationships.

In the current fiscal year, the DACH countries generated 44.3% of total revenue. At the same time, revenue recorded in the other European countries climbed strongly, driving the overall growth.

Revenue of ZALANDO SE by geographical region

IN EUR M	2021		2020		Changes	
DACH*	4,530.7	44.3%	3,667.4	46.3%	863.3	23.5%
Rest of Europe**	5,698.3	55.7%	4,246.3	53.7%	1,452.0	34.2%
Total	**10,229.0**	**100.0%**	**7,913.6**	**100.0%**	**2,315.3**	**29.3%**

*) 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, Czech Republic, Estonia, Croatia, Latvia, Lithuania, Slovakia and Slovenia.

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

The cost of materials rose by EUR 1,264.0m to EUR 5,558.9m, in line with the expansion of business. Overall, the company generated a gross profit of EUR 4,878.1m in fiscal year 2021 (prior year: EUR 3,847.8m).

Personnel expenses rose by EUR 81.0m to EUR 511.0m, in line with the rise in the number of employees. In 2021, the average headcount increased by 876 on the prior year from 4,992 to 5,868 employees.

Amortization and depreciation remained stable on the prior-year level.

Other operating expenses primarily include fulfillment costs as well as marketing expenses. The increase of EUR 998.0m is primarily due to an increase in logistic and marketing costs. The logistic and marketing cost increase was mainly driven by the expansion of the business.

The operating result for the year of EUR 218.3m decreased by 1.2 percentage points, mainly due to a lower gross profit margin and higher other operating expenses, partly offset by lower personnel expenses.

The financial result mainly comprises interest expense of EUR 32.0m (prior year: EUR 70.6m) and interest income of EUR 22.3m (prior year: EUR 43.5m), as well as income from profit transfers of EUR 13.9m (prior year EUR 8.1m) during the reporting period. Interest expense decreased mainly due to decreased expenses from derivative financial instruments as well as interest from the convertible bond and the revolving credit facility that was repaid.

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 2021 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, 2021	Jan 1 – Dec 31, 2020
Deferred taxes	7.7	17.8
Current taxes in Germany	–90.7	–90.3
Total	**–83.0**	**–72.6**

Net assets and financial position

The net assets of ZALANDO SE are shown in the following condensed balance sheet.

Assets

IN EUR M	Dec 31, 2021		Dec 31, 2020		Changes
Non-current assets	2,089.4	34.1%	1,799.4	30.3%	290.1
Current assets	3,992.6	65.1%	4,087.7	68.9%	–95.1
Prepaid expenses	16.2	0.3%	18.6	0.3%	–2.3
Deferred tax assets	32.0	0.5%	24.3	0.4%	7.7
Total assets	**6,130.3**	**100.0%**	**5,930.0**	**100.0%**	**200.3**

Equity and liabilities

IN EUR M	Dec 31, 2021		Dec 31, 2020		Changes
Equity	1,952.6	31.9%	1,932.1	32.6%	20.5
Provisions	605.3	9.9%	553.6	9.3%	51.7
Liabilities	3,566.6	58.2%	3,441.7	58.0%	124.9
Deferred income	5.8	0.1%	2.6	0.0%	3.1
Total equity and liabilities	**6,130.3**	**100.0%**	**5,930.0**	**100.0%**	**200.3**

The total assets of ZALANDO SE rose by 3.4% primarily due to a further increase in financial assets. The assets of ZALANDO SE mainly 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 2021, additions to non-current assets mainly related to intangible assets (EUR 68.4m) and financial assets (EUR 542.6m), relating mainly to loans to affiliated companies (EUR 454.1m) and shares in affiliated companies (EUR 88.5m). Disposals mainly related to loans to affiliated companies (EUR 274.9m). Investments in financial assets were primarily made to finance infrastructure investments and the expansion of business in subsidiaries.

The decrease in current assets in fiscal year 2021 was mainly driven by cash on hand and bank balances which decreased by EUR 224.2m mostly due to the investments made in loans to affiliated companies. This was partly offset by the increase in inventories, which increased by

EUR 164.1 m driven by the increase in business. Inventories mainly comprised merchandise used in the core operational business of ZALANDO SE.

The equity ratio stood at 31.9% (prior year: 32.6%).

Provisions and liabilities increased by EUR 176.6m to EUR 4,171.9m impacted by increased intercompany liabilities and trade payables offset by the decrease of the revolving credit facility of EUR 375.0m, which was paid back in 2021. The increase in provisions is in line with the expansion of business. As of December 31, 2021, this figure mainly pertains to the convertible loan, trade payables, provisions for product return claims and outstanding invoices for fulfillment and marketing expenses.

Under reverse factoring agreements, suppliers' claims against Zalando totaling EUR 599.8m were transferred to various factors as of December 31, 2021 (December 31, 2020: EUR 449.8m). 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 2021, Zalando generated a positive cash flow from operating activities of EUR 615.4m (prior year: EUR 500.1m). Despite a decrease in income (from EUR 170.0m in the prior year to EUR 138.5m in the reporting year) cash flow from operating activities increased largely due to a higher cash inflow from trade payables and intercompany liabilities.

The cash flow from investing activities in fiscal year 2021 was mainly driven by increases in loans to affiliated companies 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.

The cash flow from financing activities mainly contains cash outflows from the repayment of bank loans and from share buybacks. 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.

4.5.3 Risks and opportunities

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

4.5.4 Outlook

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

Berlin, February 28, 2022

Robert Gentz David Schneider James M. Freeman, II David Schröder Dr. Astrid Arndt

5.1 Responsibility statement by the Management Board

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

Berlin, February 28, 2022

The Management Board

Robert Gentz David Schneider James M. Freeman, II David Schröder Dr. Astrid Arndt

6.1 Corporate governance statement

In the following, our Management Board and Supervisory Board submit the corporate governance statement pursuant to Sections 289f and 315d HGB (German Commercial Code) as the core instrument of corporate governance reporting (Principle 22 of the German Corporate Governance Code). In accordance with Sections 289f and 315d HGB, this statement forms part of the combined management report.[9] Corporate governance, as practiced by Zalando, involves responsible management and control of the company geared towards long-term goals. Our Management Board and Supervisory Board value good corporate governance very highly and align their approach to the recommendations set out in the German Corporate Governance Code.

6.1.1 Declaration of conformity

The Management Board and Supervisory Board of ZALANDO SE issued the following declaration regarding the recommendations of the Government Commission German Corporate Governance Code in accordance with Section 161 AktG (German Stock Corporation Act) in December 2021 and published it on the company's website:

The last annual declaration of conformity of the Management Board and the Supervisory Board of ZALANDO SE regarding the recommendations of the Government Commission German Corporate Governance Code was published in December 2020 and updated in March 2021. Pursuant to Section 161 AktG, the Management Board and the Supervisory Board of ZALANDO SE declare the following:

Since the publication of the last annual declaration of conformity in December 2020, ZALANDO SE has acted 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 in the official section of the Federal Gazette (Bundesanzeiger) on March 20, 2020 (Code) with the exceptions of the recommendations B.3 and G.7 explained below. ZALANDO SE acts and will continue to act in conformity with the recommendations of the Code with the exception of the recommendation G.7 explained below.

Deviation from recommendation B.3 of the Code

Pursuant to recommendation B.3 of the Code, the first-time appointment of Management Board members shall be for a period of not more than three years. In deviation hereof, the member of the Management Board, Dr. Astrid Arndt, has been appointed as a member of the Management Board for an initial period of four years commencing on April 1, 2021. In view of the qualification and experience of Dr. Astrid Arndt and in consideration that Dr. Astrid Arndt has been with ZALANDO SE for several years prior to the appointment, the company considers an initial appointment of four years to be appropriate. Further, for the best possible implementation of long-term strategic decisions and objectives, ZALANDO SE considers an initial term of four years to be in the best interest of the company.

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

Deviation from recommendation G.7 of the Code

Pursuant to recommendation G.7, sentence 1 of the Code, referring to each forthcoming financial year, the Supervisory Board shall establish performance criteria for each Management Board member covering all variable remuneration components; such performance criteria mainly being, besides operating targets, strategic targets.

The new remuneration system for the Management Board, which has been approved by the Supervisory Board in March 2021 and by the annual general meeting in May 2021, became effective as of June 1, 2021. The new remuneration system provides for a total compensation consisting of cash and of variable components. The variable components include a Long-Term Incentive plan ("LTI") which accounts for the largest share in the total compensation. The LTI is share-based and is linked to strategic performance targets including financial and ESG criteria. Next to the LTI component, the new remuneration system for the Management Board as well as the remuneration granted to the member of the Management Board Dr. Astrid Arndt appointed as of April 1, 2021, further include a second variable component which incorporates the equity plan for the next leadership levels under the Management Board, the Zalando Ownership Program ("ZOP"), in order to align the remuneration system for the Management Board with the company's overall compensation framework. The ZOP is also a share-based remuneration component and as such linked to the share price increase to ensure the alignment with the shareholders' interest. The ZOP component provides *inter alia* for the possibility to issue virtual options similar to restricted stock units ("ZOP Shares") which are commonly used to compensate executives on the international talent market and allow the company to be internationally competitive. The Supervisory Board deems the combination of the performance link in the LTI component and the share price link in the ZOP component to be suitable to promote the sustainable and long-term development of the company. However, as no specific performance targets are set for the ZOP component, we declare a deviation from recommendation G.7, sentence 1 of the Code.

6.1.2 Corporate governance

Our corporate governance is determined by applicable law, the recommendations set out in the German Corporate Governance Code, as well as internal policies and rules of procedure. Our sustainability efforts form an integral part of our 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 sets expectations and provides guidance on how we want to do business and is the basis of all group policies. It is available on the corporate website and has been communicated to the employees in various languages. 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, insider compliance and tax provisions. Our Code of Ethics also sets our expectations with regard to Diversity & Inclusion, respectful behavior and avoidance of conflicts of interest. 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 sets the minimum standards by which business partners who produce or supply goods and services for us must abide. It is published on the corporate website. We expect every business partner to acknowledge these standards to assure a safe and fair working environment and to commit to compliance with applicable laws and regulations regarding human and labor rights, environmental protection as well as fair and ethical business practices (the latter includes anti-corruption and anti-financial crime, privacy law and fair competition as well as intellectual property). We also require appropriate management systems and due diligence processes to be in place.

Zalando's Compliance & Business Ethics Team is responsible for monitoring, managing, documenting and reporting on compliance risks deriving from breaches of the law, group policies and ethical standards in business on a group-wide level. Our compliance management system encompasses policy management, a help desk function, whistleblowing management (including internal investigations where required), business partner due diligence, compliance-related trainings, and monitoring of certain types of expenses.

All our employees in scope (as described in more detail in the following) are trained on compliance, 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 is 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 entities outside Berlin[10] 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.

In the reporting period, 27 compliance basics face-to-face training courses were carried out. Compared to 2020 (43), we reduced the number of training courses by combining courses and raising the average number of participants. In sum, we trained a comparable number of colleagues. 5,409 employees completed the compliance basics e-learning courses (2020: 4,116), among them 2,995 employees of ZALANDO SE (2020: 2,277). 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 fulfill 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 us because it is essential not just for our employee and partner data but especially for our customers and their trust in our products and services. Our customers' trust is the basis for long-term customer relationships. Zalando ensures regular employee privacy training and has designed actionable privacy principles to create awareness and guardrails for privacy compliant business design and conduct. For our employees we have a dedicated online resource with guidance on how it handles employee data and sets out rights employees have in

10) Includes all logistics entities as well as entities in Dublin, Helsinki, Zurich and China.

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 changes in legislation in order to properly adopt regulatory 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 standards and scope of our Code of Conduct were revised in 2021. The roll-out is planned for 2022. The revised version reflects the most recent regulatory developments and aims to appropriately cover and stress all salient topics. We have included a section on corporate digital responsibility and highlighted the importance of a digitally inclusive and sustainable future. We encourage all business partners to recognize their own digital responsibility in line with the Corporate Digital Responsibility Code[11]. Moreover, we have included an even clearer statement of consequence management with regards to violations of our standards. Also according to the revised Code of Conduct, business partners are expected to comply with applicable national and international regulations and must establish appropriate anti-bribery and anti-corruption policies and communicate these to all business areas. Zalando carries out business partner due diligence reviews (sanction list screening and compliance database and adverse media checks, followed by an in-depth review carried out by the Compliance & Business Ethics Team if any findings are made) for defined groups of business partners[12] and in cases where potential compliance risks are apparent.

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 system (RMS) 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. Further information can be found in the risk and opportunity report. 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. In 2021, processes, risks and controls related to sustainability, Diversity & Inclusion and general performance aspects were documented in order to include non-financial KPIs to the system of internal controls.

11) Further information on the Code of the CDR initiative launched by the Federal Ministry of Justice and Consumer Protection (BMJV) is available under https://cdr-initiative.de/en/kodex.
12) 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.

The Internal Audit Team provides independent, objective assurance and advisory services through a risk-based and systematic approach to evaluate the effectiveness of governance, risk management and control processes at Zalando. It governs itself by the adherence to the mandatory elements of The Institute of Internal Auditors' International Professional Practices Framework, including the Code of Ethics. The Internal Audit Team provides the Management Board and the Supervisory Board with a report on its activities on a regular basis. These reports include an account of the audits completed in relation to the semi-annual audit plan, significant findings identified in these audits and the status of the implementation of management action plans.

The Compliance & Business Ethics Team and the Risk Management Team work closely together with the Legal and Internal Audit Teams 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 systems.

6.1.3 Management Board and Supervisory Board procedures

Management Board procedures

The Management Board bears responsibility for managing the company's business. It is bound to act in the interest of the company and to increase the long-term value of Zalando. The five members of the Management Board, Robert Gentz, David Schneider, Dr. Astrid Arndt, Jim Freeman and David Schröder 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 strategy, consults regularly with the Supervisory Board on it, and ensures that it is implemented. It also manages the business transactions with the diligence of a prudent and conscientious manager. The Management Board's collaboration with other corporate and employee representative bodies is open and trusting for the benefit of Zalando.

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 them. Each area of business is managed consistently by aligning it to targets agreed upon by the Management Board. The two co-chairpersons of the Management Board Robert Gentz and David Schneider jointly coordinate all responsibilities of the Management Board. They act to ensure that the management of all business areas is uniformly guided by the objectives set and approved as a whole by the Management Board.

The Management Board meets regularly, typically every week. It is in regular contact with the chairperson of the Supervisory Board, typically every week, informs her on the progress of our business and the situation of the company and other group entities and consults with her on our strategy, planning, business development and risk management. 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 Zalando, 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 fulfill 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 experience, 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 e-commerce 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 December 31, 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. The Supervisory Board aims to fill Management Board positions with the most suitable candidates. It is in continuous contact with the Management Board, monitors senior management personnel within Zalando as well as respective talent on the market in order to identify and develop candidates to fill Management Board positions.

In the reporting period, the Co-CEO Rubin Ritter resigned from the Management Board with effect as of June 1, 2021. Robert Gentz and David Schneider continue to lead the company as Co-CEOs. The Supervisory Board appointed Dr. Astrid Arndt to the newly created position of Chief People Officer as of April 1, 2021. At the same time, the former Chief Technology Officer Jim Freeman assumed the newly created role of Chief Business and Product Officer responsible for developing, marketing and growing Zalando's consumer offerings while David Schröder continued to oversee the financial development of the group as Chief Financial Officer. As of March 1, 2022, David Schröder will assume a newly created role of Chief Operating Officer, focused on building and scaling unique capabilities and enabling the company's growth and Dr. Sandra Dembeck will join the Management Board as new Chief Financial Officer.

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

Supervisory Board procedures

The Supervisory Board advises and monitors our Management Board on the management of Zalando. It is directly involved in decisions of fundamental importance to Zalando. The Supervisory Board works with Zalando'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 corporate website. 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. It reviewed the results of its 2020 efficiency self-assessment in January 2021. 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 Zalando's internal control system as well as the level of information on specific focus topics the Supervisory Board has been involved with. No noteworthy shortcomings were identified. In December 2021, the efficiency self-assessment for fiscal year 2021 was supported by an external service provider who conducted individual interviews with all members of the Supervisory Board and three members of the Management Board, distributed an anonymous online survey with a questionnaire provided to all members of the Supervisory Board and performed a light desktop review of all plenum and committee agendas since 2019. The self-assessment 2021 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 level of information on specific focus topics the Supervisory Board has been involved with. No noteworthy shortcomings were identified but it was agreed to address specific areas of improvement over the next few months. 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, a nomination committee and a D&I and sustainability committee that was established in 2021. 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 fulfill 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. The members of the Supervisory Board as a group must be familiar with the sector in which the company operates.

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

With regard to its composition, while qualification shall still be the decisive criterion, our 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 Zalando, 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 and has resolved on a target until December 31, 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 Zalando and the Management Board as defined in Recommendation C.7 of the Code 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. 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 our 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 2021 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.

In the reporting period, Niklas Östberg succeeded Jørgen Madsen Lindemann on the Supervisory Board on May 19, 2021, who did not stand for re-election to the Supervisory Board after serving as a member since 2016.

The following overview shows the profile of skills and expertise of our 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						Indepen-dence
			Industry	Finance	Strategy	Super-vision	Inno-vation	Sustain-ability	
Cristina Stenbeck	Swedish	Investor and public company director			✓	✓	✓	✓	✓
Kelly Bennett	Canadian	Executive Advisor	✓		✓		✓		✓
Jennifer Hyman	US-American	CEO, Chair of the Board and Co-founder of Rent the Runway Inc.	✓		✓	✓	✓	✓	✓
Jørgen Madsen Lindemann (member until May 19, 2021)	Danish	Investor			✓	✓	✓	✓	✓
Niklas Östberg (member since May 19, 2021)	Swedish	CEO and Co-founder of Delivery Hero SE	✓	✓	✓		✓		✓
Anders Holch Povlsen	Danish	CEO of Bestseller A/S	✓		✓	✓		✓	
Mariella Röhm-Kottmann	German	SVP/Head of Corporate Accounting of ZF Friedrichshafen AG		✓		✓		✓	✓
Matti Ahtiainen	Finnish	Employed at Zalando Finland Oy	✓	✓					*
Jade Buddenberg	German	Employed at ZALANDO SE	✓		✓		✓	✓	*
Anika Mangelmann	German	Employed at ZALANDO SE	✓						*

*) 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 our Supervisory Board 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
Cristina Stenbeck (chairperson)	Spotify Technology S.A., Luxembourg (member of the Board of Directors)
Kelly Bennett (deputy chairperson)	–
Jennifer Hyman	The Estée Lauder Companies Inc., USA (member of the Board of Directors)
Jørgen Madsen Lindemann (member until May 19, 2021)	–
Niklas Östberg (member since May 19, 2021)	trivago N.V., Germany (member of the Supervisory Board)
Anders Holch Povlsen	Heartland A/S and various entities of the Heartland group (including entities in the Bestseller group and Intervare A/S and subsidiaries) as well as entities with a family connection (member of the Board of Directors) J.Lindeberg Holding (Singapore) Pte. Ltd. and subsidiaries, Singapore (member of the Board of Directors) Donau Agro ApS. (member of the Board of Directors)
Mariella Röhm-Kottmann	ZF Services Espana, S.L., Spain (member of the Board of Directors) ZF India Pvt. Ltd. (chairperson of the Board) Compagnie Financière de ZF SAS, France (chair of the Supervisory Board)
Matti Ahtiainen	–
Jade Buddenberg	–
Anika Mangelmann	–

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, both including the combined management report, the non-financial report as well as the remuneration report, 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
Kelly Bennett
Niklas Östberg (since May 19, 2021)
Jørgen Madsen Lindemann (until May 19, 2021)

The chairperson of our audit committee, Mariella Röhm-Kottmann, has the requisite expertise in the area of accounting and auditing pursuant to Section 100 (5) AktG. The member of the audit committee, Matti Ahtiainen, has the requisite expertise in the area of accounting 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 the 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

Cristina Stenbeck (chairperson and member since May 19, 2021)
Anika Mangelmann
Anders Holch Povlsen (member since May 19, 2021)
Jennifer Hyman (member until August 26, 2021)
Kelly Bennett (member until May 19, 2021)
Jørgen Madsen Lindemann (chairperson and member until May 19, 2021)

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

Nomination committee

The nomination committee is exclusively composed of shareholder representatives and 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. Our nomination committee then recommends a candidate to the Supervisory Board for its approval including an explanation of its recommendation.

Members of the nomination committee

Kelly Bennett (chairperson and member since May 19, 2021)
Anders Holch Povlsen
Cristina Stenbeck (chairperson until May 19, 2021)
Jørgen Madsen Lindemann (member until May 19, 2021)

D&I and sustainability committee

Our D&I and sustainability committee was established in August 2021 to support the Management Board and Supervisory Board in measures related to Diversity & Inclusion as well as sustainability and to ensure the close involvement of the Supervisory Board in these areas. The D&I and sustainability committee deals with the Diversity & Inclusion strategy as well as the sustainability strategy of the Management Board and supports the Supervisory Board and its committees in its engagement with their implementation and the related reporting. In addition to this, the D&I and sustainability committee supports the remuneration committee in preparation for setting the ESG targets for the remuneration of the Management Board.

Members of the D&I and sustainability committee

Kelly Bennett (chairperson)
Jade Buddenberg
Jennifer Hyman

6.1.4 Target of female representation on the Supervisory Board, the Management Board and on management levels below the Management Board according to Sections 76 (4), 111 (5) AktG

We attach great importance to Diversity & Inclusion throughout Zalando and we are 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 & Inclusion strategy, please refer to our Diversity & Inclusion report 2021 which can be found on our corporate website.

We aim 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 (which corresponds to a minimum number of four female and four male members);
- 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.

We determine the deadline for target achievement in each case to be December 31, 2023.

As of December 31, 2021, 56% women are represented on the Supervisory Board, 20% women are represented on the Management Board, 33.3% women are represented on the first management level below the Management Board and 36.4% women are represented on the second management level below the Management Board.

6.1.5 Takeover law disclosures pursuant to Sections 289a (1), 315a (1) HGB and explanatory report[13]

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 3.5.7 (20.).

Restrictions relating to voting rights or the transfer of shares

At the end of the reporting year, ZALANDO SE had 3,302,861 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 2021, Baillie Gifford & Co and Anders Holch Povlsen each held an indirect shareholding in ZALANDO SE that exceeded the threshold of 10% of voting rights. Information on the amount of the above-mentioned shareholdings in the company can be found in section 1.5 The Zalando share – 2021 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.

13) 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.

The general meeting passes resolutions to amend the Articles of Association. According to Article 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.

Authority of the Management Board to issue shares or acquire treasury shares

Our 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 annual 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 annual general meeting of December 18, 2013, as amended by the company's annual general meetings of June 3, 2014, July 11, 2014, and of June 23, 2020. The conditional capital increase will be implemented only to the extent that such subscription rights have been or will be issued in accordance with the Stock Option Program 2013, the holders of the subscription rights exercise their rights and the company does not deliver treasury shares to satisfy the subscription rights. The Supervisory Board 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 annual general meeting on June 3, 2014, as amended by the company's annual general meetings 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 annual 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 annual general meeting of May 31, 2016. The conditional capital increase will be implemented only to the extent that subscription rights or stock appreciation rights with subscription rights have been or will be issued in accordance with the resolution of the 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 annual 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 annual general meeting agenda for June 23, 2020, which was published in the 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, the Long-Term Incentive LTI 2019 and the Long-Term Incentive LTI 2021 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 cancellation of the vested outstanding options in exchange for payment by the company. LTI 2018, LTI 2019 and LTI 2021 options not yet vested at the time of a change in control may be replaced at the discretion of the Supervisory Board by an economically equivalent new program.

Significant company agreements subject to a change of control due to a takeover bid

The material agreements that are subject to the condition of a change of control involve the revolving credit facility, the convertible bonds and various reverse factoring agreements. In the event of a change of control, these agreements provide the right to terminate the agreement and accelerate repayment or, for factors, the right to terminate the agreement or renegotiate the contractual terms. In the event of a change of control, each bondholder is entitled to call all or any of its bonds that have not yet been converted or redeemed. If a bondholder cancels the bonds, the issuer must repay the bonds on the control acquisition date.

6.2 Remuneration report

The remuneration report describes the features of the remuneration system and remuneration for individual current and former members of the Management Board and the Supervisory Board of Zalando for fiscal year 2021 in accordance with Section 162 AktG (German Stock Corporation Act) and the recommendations of the German Corporate Governance Code.

6.2.1 Introduction

Zalando is always evolving and thrives on entrepreneurial spirit. Zalando's ambition has led to remarkable growth and value creation that have taken the company from a startup to the stock exchange in near record time. DAX-listed and founder-led, Zalando's story is still at the beginning, and the company will continue to make bold moves in pursuit of our vision of being the Starting Point for Fashion.

We are making strong progress and expect to achieve the growth targets we have set ourselves for 2025. Most importantly, our progress continues to be driven by the distinctive qualities that have differentiated our approach from the beginning: customer focus, entrepreneurship, speed and empowerment. Enshrined as Our Founding Mindset, these qualities have been and will continue to be the critical ingredient in our long-term success and achievement of our goal to reimagine fashion for the good of all.

Our Founding Mindset defines who we are and sets us apart from the competition. Our entrepreneurial spirit means we remain dissatisfied with the status quo but we know that, ultimately, sustainable progress at scale depends on all Zalandos acting like owners – from our founders to new joiners. Whether at Zalando for ten years or ten days, we want all Zalandos to feel like entrepreneurs – to be proud of the company's progress and to feel they share in its success. Entrepreneurship is at the core of how we think about working together, how we innovate for our customers and partners, and how we compensate employees for the time and energy they dedicate to the company.

6.2.2 Background

Just over 13 years ago, we took our first steps as Zalando by selling shoes out of an apartment in Berlin. Today, Zalando is a leading European fashion and lifestyle platform that employs more than 17,000 people and serves more than 48 million customers in 23 European countries. Our goal is to be the Starting Point for Fashion: the intersection of fashion and lifestyle for our customers and a platform that unlocks potential to create value and opportunity for all stakeholders.

Our success story is deeply rooted in our culture and drive for innovation which we attribute in no small part to the company continuing to be founder-led by Robert Gentz and David Schneider as Co-CEOs. Over the last year, our Co-CEOs have increased their stake in Zalando from 3.57% to 5.16%, underlining their strong continuous commitment to Zalando's long-term health and success. Across all levels of the organization, we want employees to share our founders' mindset and commitment by owning a stake in Zalando's future. This is enabled either through stock options as part of compensation packages or through our employee participation program, which is widely adopted among Zalando employees.

The Supervisory Board considers the remuneration framework a crucial element that supports and nurtures Zalando's Founding Mindset in senior management and connects it closely to our corporate strategy and growth ambitions. The remuneration framework ties the long-term financial success of the members of the Management Board closely to the long-term success of Zalando.

Over the years, Zalando has grown at a rapid pace, and the compensation frameworks have always reflected the stage of development of the company at each moment in time. Some remuneration components settled in 2021 date back to share-based compensation plans from 2011. In 2011, our revenue was just over EUR 500m, and we were still loss-making. The future of Zalando was by no means certain and liquidity via an IPO was not in the immediate future. Share-based compensation was and remains dependent on the successful future of the company.

With each new compensation plan, we factored in Zalando's growth stage. For example, in 2013 Zalando had about EUR 1.7bn in revenue and option strike prices in our compensation plans were considerably higher than in the two prior years. We have always reflected the growth in the value and size of Zalando in our compensation. Our underlying philosophy has remained the same: promote ownership among managers and employees alike to encourage accountability, bold decision-making and long-term thinking across our teams. And throughout the years, we took investor as well as proxy advisor feedback into account to refine these remuneration frameworks further.

In 2021, the annual general meeting (AGM) approved the remuneration system 2021 reflecting the next step in the evolution of our compensation framework commensurate with the stage of our development and our entry into the DAX. The new remuneration system is closely linked to the progress of our platform strategy, growth ambitions and ESG targets – with a strong focus on shareholder value creation.

The company aims to achieve a Gross Merchandise Volume (GMV)[14] of more than EUR 30bn by 2025, and – long-term – to serve more than 10% of the European fashion market. Our remuneration framework provides the incentives necessary for the company to attract and retain the best talent to achieve Zalando's strategic objectives and growth ambitions.

14) 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.

6.2.3 Changes in the composition of the Management Board and Supervisory Board during 2021

Robert Gentz and David Schneider lead the company as Co-CEOs. Rubin Ritter resigned from the Management Board and as Co-CEO during the reporting period with effect as of June 1, 2021. The Supervisory Board appointed Dr. Astrid Arndt to the newly created position of Chief People Officer (CPO) on April 1, 2021. At the same time, Chief Technology Officer, Jim Freeman, transitioned into a newly created Chief Business and Product Officer (CBPO) role developing, marketing and growing our consumer offerings. As of March 1, 2022, David Schröder will assume a newly created role of Chief Operating Officer (COO), focusing on building and scaling unique capabilities and enabling the company's growth, and Dr. Sandra Dembeck will join the Management Board as the company's new CFO. The remuneration system 2021 applies to the service agreements of Dr. Sandra Dembeck and Dr. Astrid Arndt.

On the Supervisory Board, Niklas Östberg succeeded Jørgen Madsen Lindemann on May 19, 2021, who did not stand for re-election to the Supervisory Board after serving as a member since 2016. The Chairperson of the Supervisory Board, Cristina Stenbeck, whom the German Corporate Governance Code considers independent, took over as chairperson of the remuneration committee after Mr. Lindemann's departure.

6.2.4 Management Board remuneration

Procedure for determining the remuneration system for the Management Board

The remuneration system for the Management Board of Zalando is resolved by the Supervisory Board in accordance with Section 87a (1) AktG. The Supervisory Board is supported in this by its remuneration committee. The remuneration committee develops recommendations for the remuneration system for the members of the Management Board, taking into account our long-term strategy, design principles, the legal requirements, the requirements of the German Corporate Governance Code as well as feedback and recommendations from investors and proxy advisors and submits them to the entire Supervisory Board for discussion and resolution.

In order to assess whether the remuneration of the individual members of the Management Board is in line with market practice, the Supervisory Board benchmarks it with the remuneration paid to the Management boards of a group of comparable companies to be determined by the Supervisory Board, taking into account the market position (including market capitalization, revenue, industry, size and country) and the overall financial position of the respective company. In addition, the Supervisory Board considers the level of remuneration of the members of the Management Board in relation to the remuneration structure within the company.

As a matter of principle, the Supervisory Board and its remuneration committee consult external experts to develop the remuneration system and to assess the appropriateness of the remuneration – which has also been applied for the development and assessment of the appropriateness of the remuneration system 2021. The remuneration expert is rotated from time to time and when consulting an external remuneration expert, the Supervisory Board ensures that the remuneration expert is independent of the Management Board and the company.

The remuneration system is submitted to the general meeting for approval in the case of any material change, but at least every four years. If the general meeting does not approve the remuneration system, a reviewed remuneration system will be submitted for approval at the latest at the following annual general meeting.

The remuneration system is regularly reviewed by the Supervisory Board, supported by its remuneration committee.

Throughout the process of determining, implementing and reviewing the remuneration system, the requirements of the AktG and the Supervisory Board's rules of procedure as well as the recommendations of the German Corporate Governance Code on the avoidance and handling of conflicts of interest are carefully respected.

New remuneration system for the Management Board ("remuneration system 2021")

The Supervisory Board developed a new remuneration system for the members of the Management Board which the AGM approved on May 19, 2021, and which came into effect as of June 1, 2021 (the "remuneration system 2021").

The remuneration system 2021 follows our remuneration philosophy of tying entrepreneurial culture, strategy progression and growth ambitions together in a competitive remuneration framework. The remuneration system 2021 applies for members of the Management Board who are newly appointed or whose existing appointments were renewed after June 1, 2021. The Supervisory Board fully applied the remuneration system 2021 to the service agreements of Dr. Astrid Arndt, who was newly appointed to the Management Board on April 1, 2021, and to Dr. Sandra Dembeck, who will join the Management Board on March 1, 2022, as Chief Financial Officer. The remuneration system 2021 will further apply to all new Management Board appointments as well as contract renewals of existing Management Board members.

Guiding principles

The Supervisory Board's objective is to offer the members of the Management Board a competitive remuneration package that allows us to attract the best global candidates for a position on our Management Board and retain the existing members of the Management Board, including the co-founders and Co-CEOs. At the same time, the Supervisory Board seeks to maintain sufficient flexibility to react to structural changes and different market conditions.

For the design and development of the remuneration system 2021 the Supervisory Board applied guiding principles to create an incentive for results-oriented and sustainable corporate management that fully aligns with the strategy and the long-term success of Zalando.

The remuneration system 2021 in our opinion contributes significantly to the execution and promotion of the business strategy, as well as the long-term and sustainable development of the Zalando group. We believe it ensures remuneration that is appropriate and at market standard for the members of the Management Board, in order to attract and retain the talent required to achieve our strategic ambitions. Remuneration is based on performance targets and considers in our opinion appropriately the performance of each member of the Management Board. In this context, we believe that actions of the members of the Management Board are oriented towards the interests of shareholders, resulting e.g. in no or considerably lower payouts of variable compensation in the case of a declining share price or moderate payouts in the case of moderate share price increases. The fixed integration of Environmental, Social and Governance (ESG) targets into the remuneration structure encourages sustainable and future-oriented action. Such targets are deeply rooted in our sustainability (do.MORE) as well as diversity and inclusion (do.BETTER) strategies and can lower the number of LTI shares or options by up to 20% if targets are not achieved. The overall structure is further designed to promote an entrepreneurial culture of ownership and risk-taking in the Management Board and across the company. The system, however, allows for flexibility to tap into a wide talent market.

Business strategy	Promotion of the **business strategy** as well as the **long-term** and **sustainable** development of ZALANDO SE and the Zalando-Group
Appropriate and market standard remuneration	Ensuring an **appropriate** and **market standard** remuneration for the members of the Management Board to allow the Company to attract, incentivize and retain the **specific type of talent** and leadership required for its **strategic ambitions**
Ambitious performance targets	Definition of **ambitious performance targets** and **appropriate consideration of the performance** of the members of the Management Board (pay for performance)
Focus on shareholder value creation	Orientation of the actions of the members of the Management Board towards the **interest of the shareholders**
Linked to ESG criteria	Consideration of **sustainability and environmental social governance (ESG)** aspects to ensure social and future-oriented action
Entrepreneurial culture	Promotion of **entrepreneurial culture**

Investor and proxy advisor feedback

When designing the remuneration system in 2020, the Supervisory Board, with the support of market-leading compensation experts, took into account feedback on the previous systems from investors and proxy advisors. This includes: ensuring strong alignment between remuneration and communicated strategy targets, appropriate remuneration levels reflecting market standards for all Management Board members, performance targets that do not reward failure, malus and clawback rules, as well as taking the remuneration of the wider leadership levels into account by applying the Zalando Ownership Plan (ZOP).

Following a corporate governance roadshow in the run-up to the AGM 2021, the Supervisory Board, guided by further investor and proxy advisor recommendations refined the remuneration system 2021 that was put forward to the AGM. The Supervisory Board fully aligned the financial GMV key performance indicator (KPI) with the relevant guidance and strategy with higher incentives for overachievement. For example, the maximum GMV target achievement increased from an initially envisaged 115% to 125%. The Supervisory Board further introduced, *inter alia,* measures to mitigate extraordinary developments on payouts, transparent terminology as well as measurable and strategic ESG targets to incentivize and reward sustainable corporate management.

Zalando does not believe in short-term oriented compensation but follows the philosophy that compensation should be tied to the long-term success of the company. Against this backdrop, the Supervisory Board decided against the introduction of a traditional Short-Term Incentive (STI) as a variable remuneration component and instead adhered to the Zalando Ownership Plan (ZOP) as one variable remuneration component, despite the absence of performance criteria. We are convinced that the ZOP is a better fit than any other short-term oriented compensation element and strengthens the philosophy of all senior leadership levels across Zalando acting as one team, given the ZOP already applies to all leadership levels. We believe the ZOP provides, *inter alia*, an equity incentive comparable to what many international talents are accustomed to – enabling Zalando to recruit the best talent for the company. While both ZOP options and ZOP shares vest immediately with grant, the options have a waiting period of two years.

The remuneration system 2021 was passed by the AGM 2021 with 72.27% of the votes. Following the AGM, the Supervisory Board considered the criticism of the remuneration system 2021, mainly due to the lack of a traditional Short-Term Incentive linked to a performance criterion. It nevertheless decided not to amend the remuneration system 2021 and to keep the ZOP as part of the variable remuneration. As outlined above, the Supervisory Board strongly believes in the value that the alignment between Management Board and the wider leadership levels through the ZOP ensures. In addition, Zalando follows the philosophy that compensation should be tied to the long-term success of the company and thus does not favor traditional Short-Term Incentives. The Supervisory Board will take the shareholder feedback into account when further refining the remuneration system going forward.

Remuneration system 2021

At a glance

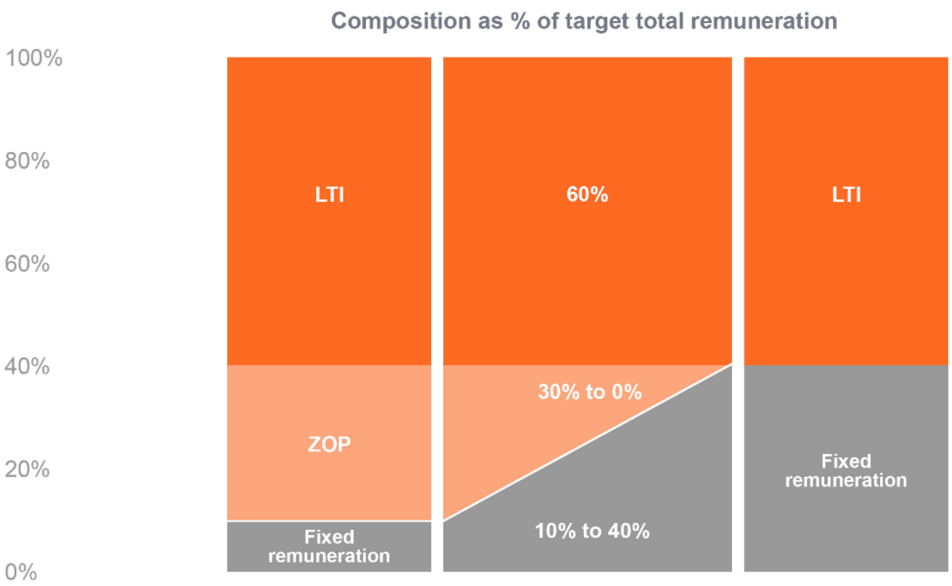
The remuneration system 2021 consists of a fixed base salary, customary fringe benefits, and two variable remuneration components: the Zalando Ownership Plan (ZOP) and a Long-Term Incentive program (LTI).

The ZOP is based on a variable incentive plan which has been in place since 2019 for all leaders at the company and has been introduced to the remuneration system for the members of the Management Board to promote the alignment of the remuneration of the members of the Management Board with the company's overall remuneration philosophy.

The LTI is a performance-related remuneration component which is linked to the company's strategic growth targets and, through the introduction of an ESG modifier, its sustainable development. For each performance period, the Supervisory Board defines measurable, and transparent ESG targets on the basis of our ESG strategy. In selecting the specific ESG targets, the Supervisory Board pays particular attention to relevance and measurability of the targets based on the underlying ESG strategy which is subject to continuous evolution.

The amount of the variable remuneration of the members of the Management Board under both variable remuneration components is directly tied to the development of our share price, thereby linking the interests of the members of the Management Board with those of the shareholders. The fixed integration of ESG targets into the remuneration structure encourages sustainable and future-oriented action and incentivizes a long-term development of the company.

The LTI is 60% of the total target remuneration for members of the Management Board. The remaining 40% can be designed flexibly, depending on personal circumstances and preferences: A minimum of 10% and a maximum of 40% of total compensation is represented by the fixed base salary. Consequently, the ZOP makes up between 0% and 30% of target total compensation, traded-off with the fixed base salary.



We believe the remuneration system 2021 for the members of the Management Board is clear and comprehensible. It complies with the requirements of the newly introduced Section 87a AktG and with the recommendations of the German Corporate Governance Code with the exception of the disclosed deviation from the recommendation in G.7 of the German Corporate Governance Code.

Maximum remuneration

In the remuneration system 2021, the Supervisory Board has determined a maximum remuneration in accordance with Section 87a (1) Sentence 2 No. 1 AktG. The total maximum remuneration for one fiscal year is determined as the sum of all remuneration components received for such fiscal year (in particular the fixed annual salary, the fringe benefits, the inflow value under the ZOP 2021 as well as the pro rata inflow value under the LTI 2021), regardless of whether the payout occurs in this fiscal year or at a later date.

The maximum remuneration for one fiscal year is based on the pro rata inflow value for the LTI after the expiry of the four-year waiting period for each fiscal year and the respective maximum limits for variable remuneration – amounting to EUR 15.75m for a CEO and to EUR 10.5m for ordinary members of the Management Board.

In addition to the total maximum remuneration in accordance with Section 87a (1) Sentence 2 No. 1 AktG, the settlement values of the variable remuneration components provided for under the remuneration system 2021 (LTI 2021, ZOP 2021) are capped at a maximum amount per option (please see section Long-Term Incentive 2021 (LTI 2021), applicable to Dr. Astrid Arndt for details). Besides that, the service agreements of the members of the Management Board provide for a cap on fringe benefits in the amount of EUR 25,000 to EUR 30,000 gross per year.

Malus and clawback regulations

In the case of a willful or grossly negligent serious breach of the obligations pursuant to Section 93 AktG or internal compliance policies and behavioral guidelines or severe compliance infringements by a member of the Management Board, the Supervisory Board may, at its sole discretion, retain in whole or in part variable remuneration that has not been paid out (malus).

In such a case, the Supervisory Board may further, at its sole discretion, reclaim in whole or in part variable remuneration that has already been paid out (clawback). Further, the Supervisory Board has the possibility to reclaim variable remuneration in the case of an undue payout based on incorrect information.

Overview of Management Board remuneration in 2021

Expenses in 2021

The following table shows the total expenses recognized in 2021 for fixed and one-year variable remuneration within the consolidated income statement of the group. The table also includes expenses recognized in the prior year to indemnify Jim Freeman for negative tax consequences under Section 409A of the U.S. Internal Revenue Code in the following years.

For multi-year variable share-based payment plans the table also shows the expenses in accordance with IFRS 2 as this best represents the allocation of the multi-year remuneration components over the period these are earned. In addition to the expenses shown in the table, income of EUR 5.5m was recognized according to the forfeiture of unvested options under LTI 2018. Because of the graded vesting of options and the corresponding frontloading, the company already recognized expenses in prior years for unvested options which were now reversed for those unvested options which were forfeited due to the mutually termination of the service agreement of Rubin Ritter.

Expenses recognized for the members of the Management Board

	Robert Gentz, Co-CEO		David Schneider, Co-CEO		Rubin Ritter, Co-CEO (until June 1, 2021)	
IN EUR	2021	2020	2021	2020	2021	2020
Fixed remuneration	78,045	77,490	78,305	83,431	37,983	84,046
One-year variable remuneration	–	–	–	–	–	–
409A tax indemnification	–	–	–	–	–	–
Equity-settled share-based payment transactions (IFRS 2 expenses)	2,886,568	4,240,799	2,886,568	4,240,799	1,327,365	4,240,799
Total expenses	**2,964,613**	**4,318,289**	**2,964,873**	**4,324,230**	**1,365,348**	**4,324,845**

	David Schröder, CFO		Dr. Astrid Arndt, CPO (since April 1, 2021)		Jim Freeman, CBPO	
	2021	**2020**	**2021**	**2020**	**2021**	**2020**
	520,739	517,944	381,250	–	821,674	819,378
	–	–	–	–	–	125,000
	–	–	–	–	–	6,620,466
	996,936	1,639,176	1,509,603	–	2,175,860	3,686,364
	1,517,675	**2,157,120**	**1,890,853**	**–**	**2,997,534**	**11,251,208**

Remuneration awarded and due in 2021 (Section 162 (1) Sentence 1 AktG)

The table below shows the remuneration awarded and due (gewährte und geschuldete Vergütung) to the current and former members of the Management Board during their term of appointment in the fiscal year 2021, including their relative share in accordance with Section 162 (1) Sentence 2 No. 1 AktG. The remuneration includes all amounts actually received (gewährte Vergütung) as well as all amounts legally due but not yet received (geschuldete Vergütung). This includes the annual fixed compensation and fringe benefits paid out in the fiscal year 2021 (and 2020 respectively), remuneration received for variable remuneration components, particularly for virtual options exercised in the fiscal year 2021 (and 2020 respectively) as well as payments received in the fiscal year 2021 (and 2020 respectively) with respect to tax indemnifications and settlement of option cancellations.

In addition to the remuneration awarded and due – and in accordance with practice in prior years – the table also includes remuneration resulting from the exercise of real stock options in the fiscal year 2021 (and 2020 respectively). All option exercises of the three Co-CEOs in 2021 date back to pre-IPO real stock option programs (SOP 2011 and SOP 2013) granted in 2011 and 2013 which were actually received in 2011 and 2013 according to Section 162 (1) Sentence 1 AktG. The same applies to options under SOP 2014. The exercises of the SOP 2013 program were settled in conditional capital so as not to draw cash from Zalando, which was instead invested into further growing the business. Thus, these options represent and were granted for (performance) periods between 2011 and 2017, hence well before the reporting year 2021 when the company was at an early stage of its development.

Remuneration of the members of the Management Board

	Robert Gentz, Co-CEO		David Schneider, Co-CEO		Rubin Ritter, Co-CEO (until June 1, 2021)	
IN EUR	2021	2020	2021	2020	2021	2020
Fixed remuneration						
Base salary	65,000	65,000	65,000	65,000	27,264	65,000
Fringe benefits	13,045	12,490	13,305	18,431	10,719	19,046
Total fixed	78,045	77,490	78,305	83,431	37,983	84,046
Variable remuneration						
One-year variable	–	–	–	–	–	–
Multi-year variable						
VSOP 2017	–	–	–	–	–	–
VSOP 2018	–	–	–	–	–	–
LTI 2019	–	–	–	–	–	–
409A tax indemnification	–	–	–	–	–	–
Settlement for option cancellations	–	–	–	–	–	–
Total variable	–	–	–	–	–	–
Remuneration awarded and due according to Section 162 (1) Sentence 1 AktG	**78,045**	**77,490**	**78,305**	**83,431**	**37,983**	**84,046**
Proportion of fixed remuneration*	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%
Proportion of variable remuneration*	–	–	–	–	–	–
Remuneration from exercise of real stock options						
SOP 2011	–	40,419,302	–	40,419,302	6,029,628	–
SOP 2013	45,380,914	–	45,380,914	–	36,442,552	53,219,500
SOP 2014	–	–	–	–	–	–
Total remuneration	**45,458,959**	**40,496,792**	**45,459,219**	**40,502,733**	**42,510,163**	**53,303,546**

*) The proportion of fixed and variable remuneration in relation to the total remuneration does not reflect the relative proportions indicated in the remuneration system 2021 as the latter are based on the total target remuneration for a fiscal year, whereas the fixed and variable remuneration entitlements (awarded and due) as reflected in this table result from different remuneration periods and partially also from remuneration components as agreed and applicable prior to the remuneration system 2021.

	David Schröder, CFO		Dr. Astrid Arndt, CPO (since April 1, 2021)		Jim Freeman, CBPO	
	2021	**2020**	**2021**	**2020**	**2021**	**2020**
	500,000	500,000	360,693	–	800,000	800,000
	20,739	17,944	20,557	–	21,674	19,378
	520,739	517,944	381,250	–	821,674	819,378
	–	–	–	–	–	125,000
	–	9,830,559	–	–	–	–
	–	–	–	–	6,060,444	–
	13,892,943	–	–	–	5,477,604	1,945,236
	–	–	–	–	503,000	2,335,938
	–	–	–	–	–	6,134,757
	13,892,943	9,830,559	–	–	12,041,048	10,540,931
	14,413,682	**10,348,503**	**381,250**	**–**	**12,862,722**	**11,360,309**
	3.6%	5.0%	100.0%	–	6.4%	7.2%
	96.4%	95.0%	–	–	93.6%	92.8%
	–	–	–	–	–	–
	–	–	–	–	–	–
	–	1,614,056	–	–	–	–
	14,413,682	**11,962,559**	**381,250**	**–**	**12,862,722**	**11,360,309**

In addition, the following table shows the remuneration awarded and due as well as remuneration according to option exercises in the fiscal year for the former member of the Management Board received after the end of his service agreement.

Remuneration of the former member of the Management Board

	Rubin Ritter, Co-CEO (after June 1, 2021)	
IN EUR	**2021**	**2020**
Fixed remuneration		
Base salary	–	–
Fringe benefits	6,530	–
Total fixed	6,530	–
Variable remuneration		
One-year variable	–	–
Multi-year variable	–	–
Total variable	–	–
Remuneration awarded and due according to Section 162 (1) Sentence 1 AktG	**6,530**	**–**
Proportion of fixed remuneration	100.0%	–
Proportion of variable remuneration	–	–
Remuneration received from exercise of stock options		
SOP 2013	46,555,000	–
Total remuneration	**46,561,530**	**–**

The current and former members of the Management Board did not receive any compensation from other group companies in the fiscal year 2021.

The compensation components of each member of the Management Board as well as the explanation of how the compensation complies with the relevant remuneration system, how it promotes the long-term development of the company and how the performance criteria have been applied is described in detail in the following sections.

6.2.5 Overview of remuneration systems applicable during the reporting period

As stated above, the remuneration system 2021 will be applicable to all service agreements for members of the Management Board who are newly appointed or whose appointments are renewed after the effective date June 1, 2021. The new system has already been applied to Dr. Astrid Arndt's appointment to the Management Board as of April 1, 2021.

For existing service agreements concluded before 2021, the existing remuneration arrangements as agreed in the existing service agreements continued to apply during the reporting year in accordance with Section 26j (1) EGAktG (Introductory Act to the Stock Corporation

Act) and the rationale of the German Corporate Governance Code, in particular in order to avoid modifications to the already granted Long-Term Incentive plans with a multi-year assessment basis.

The remuneration system for the Co-CEOs, Robert Gentz and David Schneider, and the former Co-CEO, Rubin Ritter, who resigned from the Management Board with effect as of June 1, 2021, was approved by the Supervisory Board and the AGM in May 2018. In due consideration of the feedback received from investors, the service agreements with the Co-CEOs that implemented the remuneration system were concluded in August 2018 for a five-year term commencing on December 1, 2018. The remuneration system for the Co-CEOs also served as the basis for assessing the remuneration of the CBPO Jim Freeman and the CFO David Schröder, who were appointed to the Management Board in 2019.

Although there are certain differences between the compensation packages issued in 2018 and 2019 that reflect the various roles, 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 reflected in those former (still applicable) remuneration systems for the Co-CEOs as well as the CFO and CBPO still fit the needs of Zalando as a high-growth company.

The following detailed tables for each variable remuneration program include *inter alia*, the information on the number of options granted and exercised during the reporting period as well as the performance measurement of the performance criteria applicable to the virtual or real stock options exercised during the reporting period.

Remuneration components applicable in 2021 (Section 162 (1) Sentence 2 No. 1, 3 AktG)

Fixed remuneration components

During the reporting year, the current and former members of the Management Board received a fixed base salary which was paid in monthly installments. In addition, they were entitled to non-cash payments (such as the use of company cars) and other fringe benefits, including reimbursement of standard expenses, contributions towards health insurance, and monthly gross amounts that correspond to the employer's contributions to the statutory pension and unemployment insurance.

Variable remuneration components

During the reporting period, the variable remuneration of each current and former member of the Management Board was based on Long-Term Incentive programs (LTI) granting virtual option rights, which are linked to the performance of the company under its long-term growth strategy and to the development of the share price, creating a strong link to the shareholders' interests. In addition, the most recent Long-Term Incentive program LTI 2021 includes strategic ESG targets which incentivize and reward sustainable corporate management and social responsibility. Under the remuneration system 2021, a second variable incentive component was introduced, the Zalando Ownership Plan (ZOP). The ZOP is based on a variable incentive plan for the senior management of the company that has been in place since 2019. This has now been introduced to the remuneration system for the members of the Management Board to promote the alignment of the remuneration of the members of the Management Board with the company's overall remuneration philosophy.

According to their respective appointment, the CPO, Dr. Astrid Arndt, participates in the LTI 2021 as well as the ZOP 2021, while CBPO, Jim Freeman, and CFO, David Schröder, participate in the LTI 2019 and Co-CEOs, Robert Gentz, David Schneider and Rubin Ritter (who resigned from the Management Board with effect as of June 1, 2021) participate in the LTI 2018.

In addition to the variable remuneration components based on the current contractual arrangements there are still options outstanding from previous stock option plans or virtual option plans which have been granted to some members of the Management Board prior to their current appointment.

Applicable variable remuneration components in the reporting period

Long-Term Incentive 2021 (LTI 2021), applicable to Dr. Astrid Arndt

The LTI 2021 is a share-based virtual option program which is linked to the development of the company's gross merchandise volume as a key performance indicator and takes into account ESG targets by means of a modifier. As such, the Long-Term Incentive structure creates a strong alignment with shareholders' interests, includes a clear pay-for-performance link and encourages and rewards a long-term and future-oriented management of the company. The inclusion of ESG targets incentivizes the sustainable development of Zalando.

Under the LTI 2021, the members of the Management Board are granted two types of options, namely virtual LTI Shares and virtual LTI Options, by way of a one-off grant for the entire term of their service agreement (sequential plan). The LTI provides the members of the Management Board with the flexibility to individually determine the proportion of LTI Shares (LTI Shares Ratio) and LTI Options (LTI Options Ratio). The choice of a mixture of LTI Shares and LTI Options takes into account the different personal circumstances and risk-affinity of members of the Management Board and provides the Supervisory Board with the flexibility to accommodate all talent profiles. For this purpose, the Supervisory Board sets a target value in euro as grant value. The number of LTI Shares to be granted is calculated by dividing this grant value by the product of the share price as per the grant date and a fixed conversion factor for LTI Shares of 1, and multiplying this quotient with the LTI Shares Ratio. The number of LTI Options to be granted to the individual Management Board member is calculated by dividing the grant value by the product of the share price as per the grant date and a fixed conversion factor for LTI Options of 0.4, and multiplying this quotient with the LTI Options Ratio.

The number of LTI Shares and LTI 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 performance criteria are met during the respective performance period.

Vesting scheme

The options vest in quarterly tranches over a performance period equal to the relevant term of the service agreement.

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

Waiting period and exercise period

LTI Shares and LTI Options can only be exercised after the expiry of a four-year waiting period commencing on the grant date. Furthermore, LTI Shares and LTI Options can only be exercised within a fixed exercise period of three years after the expiry of the waiting period. LTI Shares and LTI Options which are still unexercised upon the expiry of the exercise period are forfeited without compensation.

Performance period and performance criterion

The overall target achievement under the LTI 2021 is measured in two steps, (i) on the basis of the development of the GMV of the Zalando group during the performance period commencing on the grant date until the end of the term of the service agreement as the most relevant performance parameter under our long-term strategy and (ii) by taking into account the achievement of certain ESG targets by means of a modifier of between -20%-points and 0%-points.

In the first step, the percentage of vested options which can be exercised depends on the extent to which the targeted GMV compound annual growth rate ("CAGR") in alignment with the company's strategy has been achieved during the performance period. If the targeted GMV CAGR during the performance period has been met, the target achievement rate is 100%. Subsequent increases or decreases of the GMV CAGR compared to the targeted GMV CAGR result in a corresponding increase or decrease of the target achievement rate.

The target achievement rate for the LTI Shares and LTI Options granted to Dr. Astrid Arndt as of April 1, 2021, is determined as follows:

GMV CAGR	Target achievement rate
< 11.5%	0%
≥ 11.5% and < 13.8%	50%
≥ 13.8% and < 16.1%	60%
≥ 16.1% and < 18.4%	70%
≥ 18.4% and < 20.7%	80%
≥ 20.7% and < 23.0%	90%
≥ 23.0% and < 25.3%	**100%**
≥ 25.3% and < 28.8%	110%
≥ 28.8%	125%

The maximum target achievement is 125%. In the event that the GMV target achievement falls below 50%, the number of exercisable LTI Shares and LTI Options is 0.

In the second step, the target achievement rate is adjusted under application of an ESG modifier which can result in the deduction of a percentage of between -20%-points and 0%-points from the target achievement rate, depending on the degree of target achievement of the agreed ESG targets during the performance period. The ESG targets for the LTI Shares and LTI Options granted to Dr. Astrid Arndt as of April 1, 2021, comprise a sustainability target aligned with the company's do.MORE strategy and a diversity and inclusion target aligned with the company's do.BETTER strategy, both clearly defined and measurable. The sustainability target which is weighted with 40% consists of four environmental sub-targets concerning the reduction of Scope 1 and 2 greenhouse gas (GHG) emissions by 80% by the end of the performance period against a 2017 base year, the increase of the annual sourcing of renewable electricity to 100% by the end of the performance period, the reduction of Scope 3 GHG emissions from private label products by 40% per million euros gross profit by the end of the performance period from a 2018 base year as well as ensuring that 90% of suppliers of the company (by emissions covering purchased goods and services sold on its platform, packaging and last-mile-delivery) will have science-based targets by the end of the performance period.

The sustainability target achievement rate for the LTI Shares and LTI Options granted to Dr. Astrid Arndt as of April 1, 2021, is determined as follows. Each sustainability sub-target is weighted with 25% within the sustainability target achievement rate:

Sub-targets				Sub-target achievement
(i) Scope 1 and 2 GHG emissions	**(ii) Renewable electricity**	**(iii) Scope 3 GHG emissions**	**(iv) Science-based targets at suppliers**	
80% and above	100%	40% and above	90% and above	0%
75% and above		33% and above	74% and above	-5%
69% and above		26% and above	58% and above	-10%
64% and above		19% and above	42% and above	-15%
below 64%	below 100%	below 19%	below 42%	-20%

The diversity and inclusion target which is weighted 60% focuses on the increase of the share of women in leadership positions and is also divided into four different sub-targets representing different leadership levels as follows:

(i) 40%-60% share of women in an Senior Contributor (SC)1 role until the end of the performance period;
(ii) 40%-60% share of women in an Senior Contributor (SC)2 role until the end of the performance period;
(iii) 40%-60% share of women in an Executive Contributor (EC)1 role until the end of the performance period;
(iv) 40%-60% share of women in an Executive Contributor (EC)2 role until the end of the performance period.

The diversity and inclusion target achievement rate for the LTI Shares and LTI Options granted to Dr. Astrid Arndt as of April 1, 2021, is determined as follows. Each diversity and inclusion sub-target is weighted with 25% within the diversity and inclusion target achievement rate:

Sub-targets				Sub-target achievement
(i) SC1	**(ii) SC2**	**(iii) EC1**	**(iv) EC2**	
40%-60%	40%-60%	40%-60%	40%-60%	0%
38% and above	38% and above	38% and above	38% and above	-5%
36% and above	36% and above	36% and above	36% and above	-10%
34% and above	34% and above	34% and above	34% and above	-15%
less than 34%	less than 34%	less than 34%	less than 34%	-20%

The performance measurement and evaluation based on the parameters set out above for the virtual LTI Shares and virtual LTI Options granted to Dr. Astrid Arndt in the fiscal year 2021 can only be completed following the end of the performance period upon the end of her current contractual term, i.e. in 2025.

Settlement value, cap

The LTI Shares entitle the member of the Management Board to a cash payment in the amount of the difference between the company's share price as per the exercise date and an exercise price of EUR 1.00 per LTI Share. The LTI Options entitle the member of the Management Board to a cash payment in the amount of the difference between our share price as per the exercise date and the share price as per the grant date. The payout (the settlement value) under the LTI 2021 is capped at 200% of the share price as per the grant date for LTI Shares and at 250% of the share price as per the grant date for LTI Options. The company is entitled to settle its obligation by way of delivery of the respective number of treasury shares as settlement shares equivalent to the settlement value.

Development of options outstanding

The number of options outstanding of LTI 2021 developed as follows in the reporting period:

LTI 2021

	Dr. Astrid Arndt			
	Number of LTI Shares	**Exercise price (in EUR)**	**Number of LTI Options**	**Exercise price (in EUR)**
Outstanding as of Jan 1, 2020	**0**	**–**	**0**	**–**
Granted during the year	0	–	0	–
Vested during the year	0	–	0	–
Forfeited during the year	0	–	0	–
Exercised during the year	0	–	0	–
Outstanding as of Dec 31, 2020	**0**	**–**	**0**	**–**
Exercisable as of Dec 31, 2020	**0**	**–**	**0**	**–**
Outstanding as of Jan 1, 2021	**0**	**–**	**0**	**–**
Granted during the year	29,240	1.00	73,099	85.50
Vested during the year	5,483	1.00	13,705	85.50
Forfeited during the year	0	–	0	–
Exercised during the year	0	–	0	–
Outstanding as of Dec 31, 2021	**29,240**	**1.00**	**73,099**	**85.50**
Exercisable as of Dec 31, 2021	**0**	**–**	**0**	**–**
Weighted average remaining contractual life of options outstanding (in years)				
As of Dec 31, 2020		–		–
As of Dec 31, 2021		6.3		6.3
Weighted average share price (in EUR) for options exercised in				
2020		–		–
2021		–		–

Zalando Ownership Plan 2021 (ZOP 2021), applicable to Dr. Astrid Arndt

Under the ZOP 2021, virtual ZOP Shares and/or virtual ZOP Options are granted in an annual target amount, divided into quarterly tranches.

The ZOP 2021 provides the members of the Management Board with the flexibility to individually determine the proportion of ZOP Shares and of ZOP Options (ZOP Shares Ratio or ZOP Options Ratio, respectively, each from 0% to 100% but in steps of 5%) during a fixed annual selection window. The number of ZOP Shares to be granted for the respective annual period is calculated by dividing the annual target amount by the product of the share price as per the grant date and a fixed conversion factor of 1.05 and multiplying this quotient with the ZOP Shares Ratio. The number of ZOP Options to be granted for the respective annual period is calculated by dividing the annual target amount by the product of the share price as per the grant date and a fixed conversion factor of 0.3 and multiplying this quotient with the ZOP Options Ratio. For the ZOP 2021 tranches granted in the fiscal year 2021, 100% was granted in ZOP Shares to Dr. Astrid Arndt.

Waiting period and exercise period

The ZOP Shares are not subject to a waiting period, whereas the ZOP Options are only exercisable after a waiting period of two years commencing on the grant date. Furthermore, ZOP Shares and ZOP Options are only exercisable during an exercise period of three years (i) following the grant date in the case of the ZOP Shares and (ii) following the expiry of the waiting period in case of the ZOP Options.

Performance criterion

The ZOP 2021 does not provide for specific performance targets to be achieved (other than the LTI 2021 as described above) but is a share-based remuneration component and as such linked to the share price development. The share-based structure of the ZOP contributes to the alignment of the interests of the members of the Management Board with those of the shareholders of Zalando in promoting the long-term development and growth of the company.

Settlement value and cap

The ZOP Shares entitle the members of the Management Board to a cash payment in the amount of the difference between the share price at the time ZOP Shares are exercised and the exercise price of EUR 1.00 per exercised ZOP Share. The ZOP Options entitle the members of the Management Board to a cash payment in the amount of the difference between the share price as per the exercise date and the share price as per the grant date. The payment claim (the Settlement Value) under the ZOP is limited to 200% of the share price as per the grant date per ZOP Share and to 250% of the share price as per the grant date per ZOP Option. The company is entitled to settle its obligation by way of delivery of the respective number of treasury shares as settlement shares equivalent to the settlement value.

Development of options outstanding

The number of options outstanding of ZOP 2021 developed as follows in the reporting period:

ZOP 2021

	Dr. Astrid Arndt	
	Number of ZOP Shares	**Exercise price (in EUR)**
Outstanding as of Jan 1, 2020	**0**	**–**
Granted during the year	0	–
Vested during the year	0	–
Forfeited during the year	0	–
Exercised during the year	0	–
Outstanding as of Dec 31, 2020	**0**	**–**
Exercisable as of Dec 31, 2020	**0**	**–**
Outstanding as of Jan 1, 2021	**0**	**–**
Granted during the year	1,903	1.00
Vested during the period	1,903	1.00
Forfeited during the year	0	–
Exercised during the year	0	–
Outstanding as of Dec 31, 2021	**1,903**	**1.00**
Exercisable as of Dec 31, 2021	**1,903**	**1.00**
Weighted average remaining contractual life of options outstanding (in years)		
As of Dec 31, 2020		–
As of Dec 31, 2021		2.6
Weighted average share price (in EUR) for options exercised in		
2020		–
2021		–

Long-Term Incentive 2019 (LTI 2019), applicable to Jim Freeman and David Schröder

The LTI 2019 is a share-based virtual option program that is linked to the development of our share price during the four-year term of office of Jim Freeman and David Schröder and the growth of our business during the performance period (as defined below). As such, we believe the Long-Term Incentive structure creates strong alignment with shareholders' interests, includes a clear pay-for-performance link and encourages and rewards the long-term and future-oriented management of the company.

Under the LTI 2019, the members of the Management Board are granted three types of options, namely Type A, Type B and/or Type C Options by way of a one-off grant for the entire term of their service agreement (sequential plan). Each option relates to one share in the company. Type A options have an exercise price of EUR 29.84 and Type B and Type C options have an exercise price of EUR 1.00.

The number of LTI 2019 options which can be exercised is subject to, *inter alia*, their prior vesting, the expiry of the relevant waiting period and depends on the extent to which the targeted growth of our group's business under the performance criterion is met during the respective performance period.

With respect to negative tax consequences resulting for the CBPO 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 by March 31, 2020 have been canceled and settled by the company as cash and share consideration. The company has indemnified Jim Freeman from the tax penalty under US law imposed on the settlement value and the remaining options under the restated LTI 2019, whereby the indemnity in relation to remaining options is capped and will not exceed 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 had been EUR 55.00.

Vesting, waiting period and exercise period

The LTI 2019 options vest in quarterly tranches over a four-year period. Whereas the Type B and Type C Options vest linearly, Type A Options vest in increasing tranches. Vested performance-based options can only be exercised after the expiry of a waiting period of one to four years (depending on their time of vesting) commencing on April 1, 2019.

Under the Restated LTI 2019 (see above), the non-performance based Type C Options (for details see below) granted to Jim Freeman vest at the end of each quarter or, if the vesting date falls on December 31, November 1 of each calendar year. For these non-performance based options, the respective waiting period expires at the end of the applicable vesting date. Besides, under the Restated LTI 2019 the exercise period for all Type C Options is shortened and expires at the end of the calendar year within which the respective applicable waiting period expires. The exercise period for the remaining options ends as of March 31, 2023.

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

Performance period and performance criterion

The performance period commences on the grant date (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 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 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.

The percentage of vested options which can be exercised depends on the extent to which a targeted CAGR of at least 15% has been achieved during the performance period. This requires an outperformance of the expected continued strong growth of the European online fashion retail market during the term of appointment as member of the Management Board by a factor of roughly 2. At the time of establishing the LTI 2019 for Jim Freeman and David

Schröder, the European online fashion retail industry was projected to grow at a CAGR of 7%[15] by 2023.

100% of the vested options can be exercised if the CAGR equals or exceeds 15%. Otherwise, depending on the extent of the shortfall of the actual CAGR from such target CAGR, the percentage of the relevant vested options which can be exercised decreases.

For Type A and Type B Options the following step function applies; at a CAGR below 10%, the payout is zero:

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%

For Type C Options the following step function applies. At a CAGR below 11%, the payout is 50%, i.e. 50% of the relevant vested options can be exercised irrespective of the achievement of a performance criterion after expiry of the waiting period:

CAGR	Exercisable options (as % of the total number of vested options)
CAGR ≥ 15.0%	100%
< 15.0% and ≥ 14.5%	90%
< 14.0% and ≥ 13.0%	80%
< 13.0% and ≥ 12.0%	70%
< 12.0% and ≥ 11.0%	60%
< 11.0%	50%

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

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

Settlement value and cap

The member of the Management Board is entitled to the amount by which the share price as per the exercise date exceeds the exercise price of EUR 29.84 for Type A Options and EUR 1.00 for Type B and Type C Options. This amount (the Settlement Value) is limited to a maximum of EUR 70.16 per Type A and EUR 99.00 per Type B and Type C Option. In order to achieve this maximum amount, the company's share price upon exercise needs to reach EUR 100.00. The company is entitled to settle its obligation by way of delivery of the respective number of treasury shares as settlement shares equivalent to the settlement value.

Development of options outstanding

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

LTI 2019

	David Schröder		David Schröder		Jim Freeman	
	Number of Type A options	Exercise price (in EUR)	Number of Type B options	Exercise price (in EUR)	Number of Type C options	Exercise price (in EUR)
Outstanding as of Jan 1, 2020	**400,000**	**29.84**	**110,000**	**1.00**	**274,000**	**1.00**
Granted during the year	0	–	0	–	0	–
Vested during the year	90,302	29.84	26,140	1.00	48,929	1.00
Forfeited during the year	0	–	0	–	0	–
Waived during the year*	4,698	29.84	1,360	1.00	2,446	1.00
Canceled during the year**	0	–	0	–	68,500	1.00
Exercised during the year	0	–	0	–	24,463	1.00
Outstanding as of Dec 31, 2020	**395,302**	**29.84**	**108,640**	**1.00**	**178,591**	**1.00**
Exercisable as of Dec 31, 2020	**50,000**	**29.84**	**27,500**	**1.00**	**0**	**–**
Outstanding as of Jan 1, 2021	**395,302**	**29.84**	**108,640**	**1.00**	**178,591**	**1.00**
Granted during the year	0	–	0	–	0	–
Vested during the year	117,500	29.84	27,500	1.00	68,500	1.00
Forfeited during the year	0	–	0	–	0	–
Exercised during the year***	155,000	29.84	52,500	1.00	67,277	1.00
Outstanding as of Dec 31, 2021	**240,302**	**29.84**	**56,140**	**1.00**	**111,314**	**1.00**
Exercisable as of Dec 31, 2021	**302**	**29.84**	**1,140**	**1.00**	**0**	**–**
Weighted average remaining contractual life of options outstanding (in years)						
As of Dec 31, 2020		5.3		5.3		1.9
As of Dec 31, 2021		4.3		4.3		1.4
Weighted average share price (in EUR) for options exercised in						
2020		–		–		79.96
2021		89.61		90.73		85.67
Share price cap****		100.00		100.00		100.00
Measured CAGR for exercised options in 2021 based on adjusted consolidated revenue		–		–		–
Target achievement		100.0%		100.0%		100.0%

*) 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 Section 409A of the U.S. Internal Revenue Code.
***) Of 155,000 options exercised in 2021 100,000 options were exercised on May 21, 2021 and 55,000 options were exercised on August 25, 2021 at EUR 29.84. Of 52,500 options exercised in 2021 27,500 options were exercised on May 21, 2021 and 25,000 options were exercised on August 25, 2021 at EUR 1.00. Of 67,277 options exercised in 2021 41,591 options were exercised on May 20, 2021. 8,562 options were exercised on June 8, 2021 and 17,124 options were exercised on November 4, 2021 at EUR 1.00.
****) All options were exercised at a share price below the share price cap.

Long-Term Incentive 2018 (LTI 2018), applicable to Robert Gentz, David Schneider and Rubin Ritter

The LTI 2018 is a share-based option program which grants both real (equity) stock options as well as virtual stock options. The program is linked to the development of the share price of the company and the growth of the company's business during the five-year service agreement term of the Co-CEOs. As such, the Long-Term Incentive structure includes a strong retention element as well as a clear pay-for-performance link. In addition, we believe it creates strong alignment with shareholders' interests and promotes the long-term development of the company. Each option relates to one share in the company and has an exercise price of EUR 47.44. The exercise price was determined on the basis of the current share price as per the date of the execution of the service agreements in August 2018 and then increased by 5%.

Vesting scheme

The LTI 2018 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 a member of the Management Board is revoked from office as member of the Management Board by the company without good cause for termination within the meaning of Section 626 BGB and without qualifying as a 'bad leaver', such member of the Management Board retains, in addition to the options which have vested until such termination, also those options which would have vested during a period of two years thereafter.

With the termination of the service agreement of Rubin Ritter with effect as of June 1, 2021, options granted to him under the LTI 2018 ceased to vest after June 1, 2021, with any options not vested until then forfeited without compensation.

Performance criterion

The performance criterion for the LTI 2018 options measures the CAGR of Zalando group's business during the relevant performance period as depicted by the relevant growth parameter described below as the most relevant performance parameter under the company's long-term strategy in 2018. The percentage of vested options of a beneficiary which can be exercised depends on the extent to which a targeted CAGR of at least 15% has been achieved during the performance period. This requires the company to outperform 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 European online fashion retail industry was projected to grow at a CAGR of 7%[16] 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

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

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

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

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 four 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. LTI 2018 options will become exercisable and their performance criterion will be measured for the first time in the year 2022.

Settlement value and cap
Upon the exercise of virtual stock options, 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 (the settlement value) 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. The company is entitled to settle its obligation by way of delivery of the respective number of treasury shares as settlement shares equivalent to the settlement value.

Upon the exercise of equity stock options, the beneficiary is entitled to the respective number of new shares of the company equivalent to the amount by which the share price as per the exercise date exceeds the exercise price of EUR 47.44. This amount (the settlement value) 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.The company is entitled to settle its obligation in cash or by way of delivery of the respective number of treasury shares as settlement shares equivalent to the settlement value.

Development of options outstanding

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	**Exercise price (in EUR)**	**Number of options**	**Exercise price (in EUR)**	**Number of options**	**Exercise price (in EUR)**
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	–
Vested during the year	323,983	47.44	323,983	47.44	323,983	47.44
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**	**–**
Outstanding as of Jan 1, 2021	**1,723,983**	**47.44**	**1,723,983**	**47.44**	**1,723,983**	**47.44**
Granted during the year	0	–	0	–	0	–
Vested during the year	350,000	47.44	350,000	47.44	175,000	47.44
Forfeited during the year**	0	–	0	–	875,000	–
Exercised during the year	0	–	0	–	0	–
Outstanding as of Dec 31, 2021	**1,723,983**	**47.44**	**1,723,983**	**47.44**	**848,983**	**47.44**
Exercisable as of Dec 31, 2021	**0**	**–**	**0**	**–**	**0**	**–**
Weighted average remaining contractual life of options outstanding (in years)						
As of Dec 31, 2020		5.9		5.9		5.9
As of Dec 31, 2021		4.9		4.9		4.9
Weighted average share price (in EUR) for options exercised in						
2020		–		–		–
2021		–		–		–

*) Waiver in connection with voluntary contribution to COVID-19 pandemic saving measures.
**) With the termination of the service agreement of Rubin Ritter with effect as of June 1, 2021, options granted to him under the LTI 2018 ceased to vest after June 1, 2021, with 875,000 options not vested until then forfeited without compensation.

Virtual Stock Option Program 2018 (VSOP 2018), applicable to Jim Freeman

The CBPO Jim Freeman served the company as SVP Engineering prior to his appointment as member of the Management Board on April 1, 2019 and participated in the VSOP 2018 at that time. Under the VSOP 2018 375,000 options with an exercise price of EUR 29.84 continued to vest in quarterly tranches after the appointment as member of the Management Board and were therefore 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 CAGR of the Zalando group net merchandise value of at least 6% during a lock-up period of two to five years. The exercise of the virtual options requires the expiry of a lock-up period of two to five years.

The beneficiary is entitled to the amount by which the share price as per the exercise date exceeds the exercise price of EUR 29.84. This amount (the settlement value) is limited to a maximum of EUR 70.16 per option. In order to achieve this maximum amount the company's share price will need to reach EUR 100.00. The company is entitled to settle its obligation by way of delivery of the respective number of treasury shares as settlement shares equivalent to the settlement value.

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 were canceled and settled by the company as cash and share consideration in 2020. The company will indemnify Jim Freeman from the penalty imposed under Sec. 409c 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 and will not exceed 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 had been EUR 55.00.

Under the Restated VSOP 2018, the remaining options' expiry date is the last day of the calendar year in which the respective lock-up period for such options expires.

Development of options outstanding

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

VSOP 2018

	Jim Freeman	
	Number of options	**Exercise price (in EUR)**
Outstanding as of Jan 1, 2020	**500,000**	**29.84**
Granted during the year	0	–
Vested during the year	50,938	29.84
Forfeited during the year	0	–
Waived during the year*	4,062	29.84
Canceled during the year**	250,000	29.84
Exercised during the year	0	–
Outstanding as of Dec 31, 2020	**245,938**	**29.84**
Exercisable as of Dec 31, 2020	**0**	**–**
Outstanding as of Jan 1, 2021	**245,938**	**29.84**
Granted during the year	0	–
Vested during the year	95,000	29.84
Forfeited during the year	0	–
Exercised during the year***	105,938	29.84
Outstanding as of Dec 31, 2021	**140,000**	**29.84**
Exercisable as of Dec 31, 2021	**0**	**–**
Weighted average remaining contractual life of options outstanding (in years)		
As of Dec 31, 2020		1.8
As of Dec 31, 2021		1.4
Weighted average share price (in EUR) for options exercised in		
2020		–
2021		87.05
Measured CAGR for exercised options in 2021 based on net merchandise volume		27.8%
Target achievement		100.0%

*) 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 Section 409A of the U.S. Internal Revenue Code.
***) 105,938 options were exercised on May 21, 2021 at EUR 29.84.

Stock Option Program 2014 (SOP 2014) and Virtual Stock Option Program 2017 (VSOP 2017), applicable to David Schröder

The CFO David Schröder served the company as SVP Convenience prior to his appointment as member of the Management Board on April 1, 2019 and participated at that time among other senior management members in the SOP 2014 as well as the VSOP 2017. The options under SOP 2014 as well as under the VSOP 2017 had already been fully exercised as of December 31, 2020.

Under the SOP 2014, 55,428 stock options with an exercise price of EUR 17.72 still continued to vest in quarterly tranches after the appointment as member of the Management Board as of April 1, 2019 and were therefore considered part of the Management Board remuneration. The last tranche vested on July 1, 2020. As of July 1, 2020, the contractual performance target which was determined in a transactional net sales CAGR of at least 5% during the waiting period was achieved and the waiting period of four years had expired. The beneficiary is entitled to acquire one new share or treasury share (at the company's sole discretion) for each exercised stock option under SOP 2014. The company is entitled to settle its obligation by making a cash payment in an amount equal to the excess of the share price as of the exercise date over the exercise price for each exercised stock option.

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 the appointment as member of the Management Board as of April 1, 2019 and were therefore considered part of the Management Board remuneration. Each virtual option entitled 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 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 which was determined in a transactional net sales CAGR of at least 5% during the waiting period was achieved and the waiting period of three years had expired.

SOP 2014

	David Schröder	
	Number of options	**Exercise price (in EUR)**
Outstanding as of Jan 1, 2020	**33,257**	**17.72**
Granted during the year	0	–
Vested during the year	0	–
Forfeited during the year	0	–
Exercised during the year	33,257	17.72
Outstanding as of Dec 31, 2020	**0**	**–**
Exercisable as of Dec 31, 2020	**0**	**–**
Outstanding as of Jan 1, 2021	**0**	**–**
Granted during the year	0	–
Vested during the year	0	–
Forfeited during the year	0	–
Exercised during the year	0	–
Outstanding as of Dec 31, 2021	**0**	**–**
Exercisable as of Dec 31, 2021	**0**	**–**
Weighted average remaining contractual life of options outstanding (in years)		
As of Dec 31, 2020		–
As of Dec 31, 2021		–
Weighted average share price (in EUR) for options exercised in		
2020		66.25
2021		–

VSOP 2017

	David Schröder	
	Number of options	Weighted average exercise price (in EUR)
Outstanding as of Jan 1, 2020	**290,000**	**42.24**
Granted during the year	0	–
Vested during the year	68,564	42.63
Forfeited during the year	0	–
Waived during the year*	3,936	35.42
Exercised during the year	286,064	42.27
Outstanding as of Dec 31, 2020	**0**	**–**
Exercisable as of Dec 31, 2020	**0**	**–**
Outstanding as of Jan 1, 2021	**0**	**–**
Granted during the year	0	–
Vested during the year	0	–
Forfeited during the year	0	–
Exercised during the year	0	–
Outstanding as of Dec 31, 2021	**0**	**–**
Exercisable as of Dec 31, 2021	**0**	**–**
Weighted average remaining contractual life of options outstanding (in years)		
As of Dec 31, 2020		–
As of Dec 31, 2021		–
Weighted average share price (in EUR) for options exercised in		
2020		76.70
2021		–

*) Waiver in connection with voluntary contribution to COVID-19 pandemic saving measures.

Stock Option Program 2013 (SOP 2013) and Stock Option Program 2011 (SOP 2011), applicable to Robert Gentz, David Schneider and Rubin Ritter

Before the introduction of the LTI 2018, the Co-CEOs participated among others in the Long-Term Incentive plans SOP 2013 and SOP 2011, both of which granted real stock options rather than virtual entitlements. All options granted under the SOP 2013 and SOP 2011 became exercisable prior to the reporting period but were still partially outstanding during the reporting period.

The SOP 2013 options were granted to the Co-CEOs in the fiscal year 2013. Each SOP 2013 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 required the expiry of a four-year waiting period and the achievement of the performance criterion which was determined in a transactional net sales CAGR of at least 5% during the four-year waiting period. The waiting period ended in December 2017 and the performance criterion was fully achieved at the end of this period.

The options of SOP 2011 were granted to the Co-CEOs in the fiscal year 2011. Each SOP 2011 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. As of the reporting date, the options under SOP 2011 have been fully exercised.

Development of options outstanding

The number of options outstanding of SOP 2011 and SOP 2013 and developed as follows in the reporting period:

SOP 2011

	Robert Gentz		David Schneider		Rubin Ritter	
	Number of options	**Exercise price (in EUR)**	**Number of options**	**Exercise price (in EUR)**	**Number of options**	**Exercise price (in EUR)**
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	–
Vested 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**
Outstanding as of Jan 1, 2021	**0**	**–**	**0**	**–**	**74,800**	**5.65**
Granted during the year	0	–	0	–	0	–
Vested during the year	0	–	0	–	0	–
Forfeited during the year	0	–	0	–	0	–
Exercised during the year*	0	–	0	–	74,800	5.65
Outstanding as of Dec 31, 2021	**0**	**–**	**0**	**–**	**0**	**–**
Exercisable as of Dec 31, 2021	**0**	**–**	**0**	**–**	**0**	**–**
Weighted average remaining contractual life of options outstanding (in years)						
As of Dec 31, 2020		–		–		Unlimited
As of Dec 31, 2021		–		–		–
Weighted average share price (in EUR) for options exercised in						
2020		69.22		69.22		–
2021		–		–		86.26

*) Exercised on March 22, 2021 at EUR 5.65.

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, 2020*	**639,540**	**15.63**	**639,540**	**15.63**	**2,730,200**	**15.63**
Granted during the year	0	–	0	–	0	–
Vested 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**
Outstanding as of Jan 1, 2021	**532,265**	**1.00**	**532,265**	**1.00**	**1,332,675**	**1.00**
Granted during the year	0	–	0	–	0	–
Vested during the year	0	–	0	–	0	–
Forfeited during the year	0	–	0	–	0	–
Exercised during the year	532,265	1.00	532,265	1.00	925,200	1.00
Outstanding as of Dec 31, 2021	**0**	**–**	**0**	**–**	**407,475**	**1.00**
Exercisable as of Dec 31, 2021	**0**	**–**	**0**	**–**	**407,475**	**1.00**
Weighted average remaining contractual life of options outstanding (in years)						
As of Dec 31, 2020		2.0		2.0		2.0
As of Dec 31, 2021		–		–		1.0
Weighted average share price (in EUR) for options exercised in						
2020		–		–		67.52
2021		86.26		86.26		90.71
Measured CAGR for exercised options in 2021 based on transactional net sales (TNS)		**26.9%**		**26.9%**		**26.9%**
Target achievement		100.0%		100.0%		100.0%

*) 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 reduced the number of these options to 2,503,246, of which 200,000 were exercised in 2018, 170,571 in 2019, 800,000 in 2020 and 925,200 in 2021 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.

**) All 532,265 options were exercised on March 22, 2021 at EUR 1.00.

***) Of 925,200 options exercised in 2021 175,200 options were exercised on March 19, 2021 and 250,000 options were exercised on May 31, 2021, on June 7, 2021 and on August 23, 2021 respectively. All options were exercised at EUR 1.00.

****) In addition, a company wholly owned by the Management Board member Robert Gentz and a company wholly owned by the Management Board member David Schneider each exercised 2,191,315 options on March 22, 2021 at a share price of EUR 86.26 and an exercise price of EUR 1.00. These options were transferred by the Management Board members to the companies in 2017 and 2018.

Further information pursuant to Section 162 AktG

Compliance with the maximum remuneration (Section 162 (1) Sentence 2 No. 7 AktG)

During the reporting period the remuneration system 2021 was only applicable to the remuneration of Dr. Astrid Arndt. Accordingly, the total maximum compensation amount stipulated under the remuneration system 2021 as of the end of the reporting period only applied to Dr. Astrid Arndt. For Dr. Astrid Arndt, the total maximum compensation for a fiscal year is capped at EUR 5.25m. Since the pro rata inflow from the LTI options and LTI shares granted to Dr. Astrid Arndt under the LTI 2021 for the fiscal year 2021 can only be determined after the expiry of the waiting period of four years, compliance with the maximum remuneration for the fiscal year 2021 can only be conclusively reported in the context of the remuneration report for the fiscal year 2025.

Application of malus and clawback during reporting year (Section 162 (1) Sentence 2 No. 4 AktG)

The remuneration system 2021 and in its implementation the service agreement of Dr. Astrid Arndt provide for malus and clawback clauses. In the case of a willful or grossly negligent serious breach of the obligations pursuant to Section 93 AktG or internal compliance policies and behavioral guidelines or severe compliance infringements by the member of the Management Board, the Supervisory Board may, at its sole discretion, retain in whole or in part variable remuneration (under ZOP 2021 and/or LTI 2021) that has not been paid out. In such a case, the Supervisory Board may, at its sole discretion, reclaim in whole or in part variable remuneration that has already been paid out. Furthermore, the Supervisory Board has the possibility to reclaim variable remuneration in the case of an undue payout based on incorrect information.

In the fiscal year 2021, the Supervisory Board did not make use of the option to retain (malus) or reclaim (clawback) variable remuneration components as none of the above conditions were ascertained by the Supervisory Board.

The service agreements of the members of the Management Board which were concluded before the implementation of the remuneration system 2021 do not include malus or clawback provisions. 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).

Benefits promised or granted to a member of the Management Board by a third party with regard to his/her activity as a member of the Board of Management (Section 162 (2) No.1 AktG)

During the fiscal year 2021, no benefits were granted to the members of the Management Board by third parties. Also, there are no outstanding benefits that were promised by third parties to the members of the Management Board.

Benefits promised to the members of the Management Board in the event of regular or early termination (Section 162 (2) No. 2 and 3 AktG)

Severance entitlements upon premature termination

The service agreements of all current Management Board members provide that in the event of a removal from office for good cause pursuant to Section 84 (4) AktG, the company may terminate the service agreement prematurely within the statutory termination period pursuant to Section 622 BGB. In such an event and if there is no good cause for the termination within the meaning of Section 626 BGB, the member of the Management Board is entitled to a cash severance payment which amounts to two times the annual fixed salary, however, not more than the fixed salary that would have been payable for the remaining term of the service agreement.

Entitlement upon death and permanent incapacity

In the event of death, the service agreements of all current members of the Management Board provide for continued payment of the fixed remuneration for the month of death and the following three months to the spouse, registered partner or partner and/or any children under the age of 25 living with the member of the Management Board and being entitled to child support.

In the event of permanent incapacity to work, the service agreement will end without notice of termination being required at the end of the calendar quarter in which such permanent incapacity to work is determined. If a Management Board member is temporarily unable to work as a result of illness, accident or any other reason beyond the Director's control, the Director's Service Agreement provides for a continued payment of his/her fixed remuneration for up to six weeks, but not beyond the effective termination date of the service agreement.

Treatment of outstanding variable remuneration

In the event of a permanent incapacity of a Management Board member unvested Options under the LTI 2018, the LTI 2019 and the LTI 2021 continue to vest (until termination of the office of the member of the Management Board) also during periods of inability to work.

Also unvested options under the LTI 2018, the LTI 2019 and the LTI 2021 which would have vested during the following two years can be kept by the member of the Management Board and continue to vest in accordance with the terms and conditions of the applicable LTI scheme.

Otherwise, as a general rule, if a leaver event occurs (as defined in each of the programs) all unvested options of the members of the Management Board under the LTI 2018, the LTI 2019 and the LTI 2021 are forfeited without compensation. However, in the case of a revocation of a member of the Management Board from office by the company for good cause pursuant to Section 84 (4) AktG without the Management Board member qualifying as bad leaver (as defined in each of the programs), the Management Board member retains all unexercised stock options under the LTI 2018, the LTI 2019, the LTI 2021 and the ZOP 2021 and all unvested options under the LTI 2018, the LTI 2019 and the LTI 2021 which would have vested during the following two years can be kept by the Management Board member and continue to vest in accordance with the terms and conditions of the applicable LTI scheme. If the Management Board member qualifies as bad leaver (as defined in each of the programs), all unsettled options of the Management Board member under the LTI 2018, the LTI 2019 or the LTI 2021 (irrespective of vested or not), and all yet unexercised options under the SOP 2013 or the SOP 2011 and all yet unexercised virtual stock options under the ZOP 2021 are forfeited without compensation.

In addition, under the SOP 2011 and upon request of the company, in a bad leaver event a Management Board member is obliged to re-transfer to the company against payment of the exercise price all shares acquired by the Management Board member under the SOP 2011 which are still owned by the Management Board member at the time of the bad leaver event (as defined in the program).

Under the VSOP 2018, in a leaver event (as further defined) the virtual stock options granted will irrevocably cease to vest, and all of the unvested virtual stock options will be forfeited without entitlement to compensation. In the case of a bad leaver event all vested and unexercised virtual stock options will be forfeited without entitlement to compensation. In the case of a leaver event that does not qualify as a bad leaver event (good leaver event) all of the vested and unexercised virtual stock options are retained.

Entitlements upon a change of control
If the office or service agreement of a member of the Management Board ends due to a change of control, there are no contractually agreed change-of-control severance entitlements. There are also no specific contractually agreed termination rights for the members of the Management Board in the event of a change of control.

However, the LTI 2018, the LTI 2019 and the LTI 2021 provide for a cancellation right of the Management Board members in the event of a change of control (as defined in each of the program rules) pertaining to unexercised vested options, and the SOP 2013 in relation to a certain portion of the options (equal to the portion of shares or assets of the company acquired by the acquirer(s) of control), in return for which the Management Board member is then entitled to a cash compensation per unexercised vested option.

The cash compensation per unexercised vested option (under the LTI 2018, the LTI 2019 and the LTI 2021) generally corresponds to the compensation per share under the takeover offer minus the exercise price or (in the case of the SOP 2013) the compensation per share under the takeover offer if such offer is made or the volume-weighted average share price of one share in the company during the last 30 trading days prior to the change-of-control-event, in each case minus the exercise price.

Also, under the LTI 2018, the LTI 2019 and the LTI 2021, the company itself can request a cancellation of unexercised vested options in exchange for a payment of the above cash compensation and replacement of unvested options by an economically equivalent new incentive program, and under the SOP 2013 the company can request a replacement of some or all of the unvested options by an economically equivalent new incentive program.

Under the VSOP 2018, in the event of a change of control (as defined in the program) the company may request that a portion of the then outstanding vested virtual stock options which is equal to the portion of the shares or assets (as the case may be) acquired of the company in the relevant change of control event shall be canceled in exchange for a payment by the company of an amount equal to the excess, if any, of (i) the product of the relevant share price and the number of virtual stock options canceled over (ii) the aggregate exercise price for all such canceled virtual stock options, subject to certain deductions. The remaining vested virtual stock options not subject to the cancellation request remain unaffected.

The existing variable remuneration programs do not provide for any accelerated vesting in the case of a change of control.

Post-contractual non-compete clause

A post-contractual non-competition clause and accordingly also a promise of a non-compete compensation payment have not been agreed in the service contracts of the Management Board members who were active as Management Board members in the reporting year.

Benefits promised or granted to a former member of the Management Board whose position ended in the course of the reporting year (Section 162 (2) No. 4 AktG)

The service agreement of Rubin Ritter was mutually terminated, without any severance payment, with effect as of June 1, 2021. The options granted to Rubin Ritter under the SOP 2011, the SOP 2013 and the LTI 2018 remain subject to the terms and conditions of the relevant program, i.e., in particular, options that were not vested by May 31, 2021 were forfeited without compensation.

For a transitional period until September 1, 2021 Rubin Ritter agreed to be available to respond to certain information requests with respect to business related matters and to share related expertise and know-how. During this transition period Rubin Ritter was entitled to keep his Company mobile/IT devices and in connection with his transitional services, the support of his former Management Board assistant. Also, under the termination agreement, Rubin Ritter is entitled to use his company car for private use until the end of the term of the underlying lease contract on July 10, 2022 (with any wage taxes to be borne by the company).

Deviations from the remuneration system during the reporting period (Section 162 (1) Sentence 2 No. 5 AktG)

In exceptional cases, the Supervisory Board may temporarily deviate from the components of the remuneration system for the Management Board of Zalando in accordance with Section 87a (1) Sentence 2 AktG if this is necessary in the interest of the long-term welfare of the company. During the fiscal year 2021, there was no deviation from the remuneration system 2021.

6.2.6 Remuneration of Supervisory Board members

The remuneration system for the members of the Supervisory Board is based on the legal requirements and takes into account the recommendations and suggestions of the German Corporate Governance Code. The partially adjusted remuneration system for the Supervisory Board was submitted to the AGM 2021 for resolution in accordance with Section 113 (3) AktG and resolved with effect for the fiscal year beginning on January 1, 2021.

The remuneration of Supervisory Board members is governed by Article 15 of the Articles of Association. The remuneration of the members of the Supervisory Board is balanced overall and commensurate with the responsibilities and tasks of the members of the Supervisory Board and the situation of the company, taking into account the remuneration arrangements of other large listed companies. The members of the Supervisory Board receive a purely function-related fixed remuneration in accordance with Clause G.18 of the German Corporate Governance Code. No performance-related remuneration or financial or non-financial performance criteria are provided for. This best reflects the independent supervisory and advisory function of the Supervisory Board, which is not geared to short-term corporate success but to the long-term development of the company.

The fixed annual remuneration is EUR 180,000 for the chairperson of the Supervisory Board, EUR 135,000 for the deputy chairperson of the Supervisory Board and EUR 90,000 for every other member of the Supervisory Board. For their work on the audit committee, members of the Supervisory Board receive an additional fixed annual remuneration of EUR 10,000. The chairperson of the audit committee receives an additional fixed annual remuneration of EUR 50,000.

The respective amount of the fixed remuneration takes into account the specific function and responsibility of the members of the Supervisory Board. In particular, in accordance with Clause G.17 of the German Corporate Governance Code, the higher time commitment of the chairperson and the deputy chairperson of the Supervisory Board as well as of the chairperson and the members of the audit committee is also appropriately taken into account through a corresponding additional remuneration. Attendance fees are not paid.

Supervisory Board members who are members of the Supervisory Board or the audit committee or hold the office of the chairperson or deputy chairperson of the Supervisory Board or of the chairperson of the audit committee for part of a fiscal year only, receive a corresponding proportionate remuneration. The remuneration falls due at the end of the fiscal year for which the remuneration is paid.

In addition to the function-related fixed remuneration, the members of the Supervisory Board are reimbursed for their reasonable out-of-pocket expenses incurred in the performance of the Supervisory Board mandate as well as any value added tax payable on their remuneration and expenses. Furthermore, the members of the Supervisory Board are included in a D&O liability insurance policy for board members maintained by the company in the company's interests that will provide reasonable coverage against financial damages. The premiums for this insurance policy are paid by the company.

The general meeting determines the remuneration of the members of the Supervisory Board upon proposal of the Management Board and the Supervisory Board in the Articles of Association or by resolution. The general meeting resolves on the remuneration of the members of the Supervisory Board at least every four years. A resolution confirming the existing remuneration is also permissible in this respect. Should the general meeting not confirm the remuneration system submitted to a vote, a revised remuneration system must be submitted to the following AGM at the latest. In preparation for the resolution of the general meeting, the Management Board and the Supervisory Board each review whether the remuneration, in particular with regard to its amount and structure, continues to be in our interest and is in an appropriate relationship to the tasks of the members of the Supervisory Board and the situation of the company. The Supervisory Board may also carry out a horizontal market comparison for this purpose. In doing so, the Supervisory Board may seek advice from an external remuneration expert. If necessary, the Management Board and the Supervisory Board will propose an appropriate adjustment of the remuneration to the AGM.

In accordance with Section 162 (1) Sentence 1 AktG, the following table shows the remuneration awarded and due ("gewährte und geschuldete Vergütung") to the members of the Supervisory Board in the fiscal years 2021 and 2020. According to the remuneration system for the members of the Supervisory Board, the remuneration only consists of a fixed component for each member of the Supervisory Board:

Remuneration of the members of the Supervisory Board

IN EUR	2021	2020
Alexander Samwer (until June 23, 2020)	–	30,986
Anders Holch Povlsen (since December 9, 2013)	90,000	76,918
Anika Mangelmann (since June 23, 2020)	90,000	34,014
Anthony Brew (until June 23, 2020)	–	30,986
Beate Siert (until June 23, 2020)	–	30,986
Cristina Stenbeck (since May 22, 2019)	180,000	150,000
Jade Buddenberg (since June 23, 2020)	90,000	34,014
Jennifer Hyman (since June 23, 2020)	90,000	34,014
Jørgen Madsen Lindemann (until May 19, 2021)	38,082	80,000
Kelly Bennett (since May 22, 2019)	145,000	93,082
Konrad Schäfers (until June 23, 2020)	–	38,137
Mariella Röhm-Kottmann (since May 22, 2019)	140,000	100,000
Matti Ahtiainen (since June 23, 2020)	100,000	41,863
Niklas Östberg (since May 19, 2021)	61,918	–
Remuneration awarded and due according to Section 162 (1) Sentence 1 AktG	**1,025,000**	**775,000**

The current and former members of the Supervisory Board did not receive any compensation from other group companies in the fiscal year 2021.

6.2.7 Comparative presentation of the development of the remuneration

In accordance with Section 162 (1) Sentence 2 No. 2 AktG, the following tables show the annual change in remuneration to the current and former members of the Management Board and of the Supervisory Board as well as the annual change in average employee remuneration on a full-time equivalent basis over the last five fiscal years and the company's performance. The remuneration of the Management Board members for the years 2017 to 2019 is based on the amount of "benefits received" as reported in the annual reports 2017 to 2019. The presentation of the average employee remuneration is based on the total workforce employed by Zalando. While the yearly target and fixed average remuneration on a full-time equivalent basis of employees increased year-on-year, the figures below show the remuneration including option exercises in the relevant year. In 2020, a higher amount of equity remuneration was exercised compared to 2021. Taking into account the holding periods over several years for the employee share programs, the figures shown are distorted. The development of the company's net income is shown alongside the development of the revenue of the Zalando group.

Comparative table on the change of remuneration awarded and due according to Section 162 (1) Sentence 1 AktG and company performance

	Annual change 2021 to 2020	Annual change 2020 to 2019	Annual change 2019 to 2018	Annual change 2018 to 2017
Remuneration of the members of the Management Board				
Robert Gentz, Co-CEO	0.7%	2.2%	-99.5%	30.0%
David Schneider, Co-CEO	-6.1%	8.1%	-99.5%	29.8%
Rubin Ritter, Co-CEO (until June 1, 2021)	-54.8%	-98.8%	-66.5%	392.7%
David Schröder, CFO	39.3%	457.8%	–	–
Dr. Astrid Arndt, CPO (since April 1, 2021)	–	–	–	–
Jim Freeman, CBPO	13.2%	947.5%	–	–
Company performance				
Net Income of ZALANDO SE	-20.1%	373.5%	7.8%	-68.3%
Revenue of the group	29.7%	23.1%	20.3%	20.0%
Average remuneration on a full-time equivalent basis of employees				
ZALANDO SE	-3.2%	16.1%	0.8%	32.8%

Comparative table on the change of remuneration awarded and due according to Section 162 (1) Sentence 1 AktG and company performance

	Annual change 2021 to 2020	Annual change 2020 to 2019	Annual change 2019 to 2018	Annual change 2018 to 2017
Remuneration of the members of the Supervisory Board				
Alexander Samwer (until June 23, 2020)	–	-52.3%	0.0%	0.0%
Anders Holch Povlsen (since December 9, 2013)	17.0%	-14.5%	0.0%	12.9%
Anika Mangelmann (since June 23, 2020)	164.6%	–	–	–
Anthony Brew (until June 23, 2020)	–	-52.3%	64.0%	–
Beate Siert (until June 23, 2020)	–	-52.3%	0.0%	0.0%
Cristina Stenbeck (since May 22, 2019)	20.0%	63.2%	–	–
Jade Buddenberg (since June 23, 2020)	164.6%	–	–	–
Jenifer Hyman (since June 23, 2020)	164.6%	–	–	–
Jörgen Madsen Lindemann (until May 19, 2021)	-52.4%	0.0%	0.0%	8.4%
Kelly Bennett (since May 22, 2019)	55.8%	89.9%	–	–
Konrad Schäfers (until June 23, 2020)	–	-52.3%	0.0%	0.0%
Mariella Röhm-Kottmann (since May 22, 2019)	40.0%	63.2%	–	–
Matti Ahtiainen (since June 23, 2020)	138.9%	–	–	–
Niklas Östberg (since May 19, 2021)	–	–	–	–
Company performance				
Net Income of ZALANDO SE	-20.1%	374.5%	7.8%	-68.3%
Revenue of the group	29.7%	30.4%	23.6%	20.0%
Average remuneration on a full-time equivalent basis of employees				
ZALANDO SE	-3.2%	16.1%	0.8%	32.8%

Berlin, February 28, 2022

Robert Gentz David Schneider James M. Freeman, II David Schröder Dr. Astrid Arndt

Cristina Stenbeck Mariella Röhm-Kottmann

Independent auditor's report

To ZALANDO SE

We have audited the attached remuneration report of Zalando SE prepared to comply with Sec. 162 AktG ["Aktiengesetz": German Stock Corporation Act] for the fiscal year from January 1 to December 31, 2021 and the related disclosures. We have not audited the content of the remuneration report in section „1.4.1 Introduction“ and „1.4.2 Background“ where they go beyond the scope of Sec. 162 AktG.

Responsibilities of the executive directors and the supervisory board

The executive directors and supervisory board of ZALANDO SE are responsible for the preparation of the remuneration report and the related disclosures in compliance with the requirements of Sec. 162 AktG. In addition, the executive directors and supervisory board are responsible for such internal control as they determine is necessary to enable the preparation of a remuneration report and the related disclosures that are free from material misstatement, whether due to fraud or error.

Auditor's responsibility

Our responsibility is to express an opinion on this remuneration report and the related disclosures based on our audit. We conducted our audit in compliance with German Generally Accepted Standards for Financial Statement Audits promulgated by the Institut der Wirtschaftsprüfer [Institute of Public Auditors in Germany] (IDW). Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the remuneration report and the related disclosures are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts in the remuneration report and the related disclosures. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the remuneration report and the related disclosures, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the preparation of the remuneration report and the related disclosures in order to plan and perform audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the accounting policies used and the reasonableness of accounting estimates made by the executive directors and supervisory board, as well as evaluating the overall presentation of the remuneration report and the related disclosures.

We believe that the evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Opinion

In our opinion, on the basis of the knowledge obtained in the audit, the remuneration report for the fiscal year from January 1 to December 31, 2021 and the related disclosures comply, in all material respects, with the financial reporting provisions of Sec. 162 AktG. Our opinion on the remuneration report does not cover the content of the above mentioned disclosures of the remuneration report that go beyond the scope of Sec. 162 AktG.

Other matter – formal audit of the remuneration report

The audit of the content of the remuneration report described in this auditor's report comprises the formal audit of the remuneration report required by Sec. 162 (3) AktG and the issue of a report on this audit. As we are issuing an unqualified opinion on the audit of the content of the remuneration report, this also includes the opinion that the disclosures pursuant to Sec. 162 (1) and (2) AktG are made in the remuneration report in all material respects.

Limitation of liability

The "General Engagement Terms for Wirtschaftsprüfer and Wirtschaftsprüfungsgesellschaften [German Public Auditors and Public Audit Firms]" as issued by the IDW on January 1, 2017, which are attached to this report, are applicable to this engagement and also govern our responsibility and liability to third parties in the context of this engagement.

Berlin, February 28, 2022

Ernst & Young GmbH
Wirtschaftsprüfungsgesellschaft

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

7.1 Independent auditor's report

To ZALANDO SE

Report on the audit of the annual financial statements and of the management report

Opinions

We have audited the annual financial statements of ZALANDO SE, Berlin, which comprise the balance sheet as at December 31, 2021, and the income statement for the fiscal year from January 1 to December 31, 2021 and notes to the financial statements, including the accounting and valuation methods presented therein. In addition, we have audited the management report of ZALANDO SE, which is combined with the group management report, for the fiscal year from January 1 to December 31, 2021. In accordance with the German legal requirements, we have not audited the content of the parts of the management report specified in the appendix to the auditor's report.

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

- the accompanying annual financial statements comply, in all material respects, with the requirements of German commercial law applicable to business corporations and give a true and fair view of the assets, liabilities and financial position of the company as at December 31, 2021 and of its financial performance for the fiscal year from January 1 to December 31, 2021 in compliance with German legally required accounting principles, and
- the accompanying management report as a whole provides an appropriate view of the company's position. In all material respects, this management report is consistent with the annual financial statements, complies with German legal requirements and appropriately presents the opportunities and risks of future development. Our opinion on the management report does not cover the content of the parts of the management report referred to in the appendix to the auditor's report.

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

Basis for the opinions

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

Key audit matters in the audit of the annual financial statements

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the annual financial statements for the fiscal year from January 1 to December 31, 2021. These matters were addressed in the context of our audit of the annual financial statements as a whole, and in forming our opinion thereon; we do not provide a separate opinion on these matters.

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

1) Occurrence and measurement of revenue from the delivery of merchandise taking into account expected returns

Reasons why the matter was determined to be a key audit matter

As part of selling merchandise to customers, the company typically satisfies its performance obligation when the merchandise is delivered, i.e., the date on which the significant risks and rewards of ownership and control of the merchandise are transferred to the customer. ZALANDO 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 company and is one of the most important performance indicators for ZALANDO SE.

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 process documentation provided to us. We also tested the effectiveness of the internal controls in place. This approach includes in particular the operating effectiveness of IT-supported controls. In order to identify anomalies regarding revenue and the development of revenue, we developed a forecast of revenue from the sale of merchandise based on historical daily, weekly and monthly financial and non-financial data points and compared it with the revenue recognized in the reporting period. 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 return rates with actual historical return rates, taking seasonal influences into account and analyzed them. In order to evaluate the assumed month-specific, payment method-specific and country-specific return rates, we also compared this to the merchandise actually returned according to the financial accounting by the time we concluded our audit.

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

Reference to related disclosures
With regard to the accounting policies applied for the recognition of merchandise revenue, we refer to the company's disclosures in Notes 3.1.2 (Accounting and valuation methods) and 3.1.4 (Notes to the income statement) in the Notes to the Financial Statements.

2) Subsequent measurement of merchandise inventory

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

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

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

Auditor's response
We evaluated the compliance of the accounting policies ZALANDO SE's executive directors applied in calculating the merchandise inventory and the timely recognition of write-downs.

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

Within the scope of the valuation model, the executive directors consider the expected sell-through of merchandise for various sales channels and seasons. We compared the expected timing of the sell-through using past data with actual sales and examined any significant deviations or irregularities in detail. In addition, we considered the allocation to seasons and valuation groups as well as the classification of articles always available in the valuation model.

The valuation model also incorporates the expected proceeds from excess stocks. We examined the assumptions associated with expected proceeds considering proceeds actually generated in the past from merchandise sold with high discounts as well as merchandise for disposal outside of distance retail. In this context, we considered additional quality-determining features ("ABCD" and "never-out-of-stock" goods) separately. We developed expectations regarding potential future excess stocks based on this and compared them with valuation model assumptions and the write-downs recorded. Furthermore, we verified the clerical accuracy of the valuation model.

Our procedures did not lead to any reservations relating to the subsequent measurement of merchandise inventory.

Reference to related disclosures
With regard to the accounting policies applied for the subsequent measurement of merchandise, we refer to the company's disclosures in Notes 3.1.2 (Accounting and valuation methods) and 3.1.3 (Notes to the balance sheet) in the Notes to the Financial Statements.

Other Information

The Supervisory Board is responsible for the report of the Supervisory Board. The executive directors and the Supervisory Board are responsible for the declaration pursuant to Section 161 AktG ["Aktiengesetz": German Stock Corporation Act] on the German Corporate Governance Code, which is part of the statement on corporate governance, and for the remuneration report pursuant to Section 162 AktG. In all other respects, the executive directors are responsible for the other information. The other information comprises the parts of the annual report mentioned in the appendix to the auditor's report.

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

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

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

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

Responsibilities of the executive directors and the Supervisory Board for the annual financial statements and the management report
The executive directors are responsible for the preparation of the annual financial statements that comply, in all material respects, with the requirements of German commercial law applicable to business corporations, and that the annual financial statements give a true and fair view of the assets, liabilities, financial position and financial performance of the company in compliance with German legally required accounting principles. In addition, the executive directors

are responsible for such internal control as they, in accordance with German legally required accounting principles, have determined necessary to enable the preparation of annual financial statements that are free from material misstatement, whether due to fraud or error.

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

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

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

Auditor's responsibilities for the audit of the annual financial statements and of the management report

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

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

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

— Identify and assess the risks of material misstatement of the annual financial statements and of the management report, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and ap-

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

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

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

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

Other legal and regulatory requirements

Report on the assurance of the electronic rendering of the annual financial statements and the management report prepared for publication purposes in accordance with Section 317 (3a) HGB

Opinion

We have performed assurance work in accordance with Section 317 (3a) HGB to obtain reasonable assurance about whether the rendering of the annual financial statements and the management report (hereinafter the "ESEF documents") contained in the attached file Zalando_SE_JA+LB_ESEF_2021_12_31.zip (SHA-256-Prüfsumme: [9c1e51264ee960653f55411e1d248b499ce98b44dac9da53740708298daa165b]) 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 work extends only to the conversion of the information contained in the annual financial statements and the management report into the ESEF format and therefore relates neither to the information contained within these renderings nor to any other information contained in the file identified above.

In our opinion, the rendering of the annual financial statements and the management report contained in the file identified above and prepared for publication purposes complies in all material respects with the requirements of Section 328 (1) HGB for the electronic reporting format. Beyond this assurance opinion and our audit opinions on the accompanying annual financial statements and the accompanying management report for the fiscal year from January 1 to December 31, 2021 contained in the "Report on the audit of the annual financial statements and of the management report" above, we do not express any assurance opinion on the information contained within these renderings or on the other information contained in the file identified above.

Basis for the opinion

We conducted our assurance work on the rendering of the annual financial statements and the management report contained in the file identified above in accordance with Section 317 (3a) HGB and the *IDW Assurance Standard: Assurance on the Electronic Rendering of Financial Statements and Management Reports Prepared for Publication Purposes in Accordance with Section 317 (3a) HGB (IDW AsS 410) (10.2021)* and the International Standard on Assurance Engagements 3000 (Revised). Our responsibility in accordance therewith is further described in the "Auditor's responsibilities for the assurance work on the ESEF documents" section. Our audit firm applies the IDW Standard on Quality Management 1: Requirements for Quality Management in the Audit Firm (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 rendering of the annual financial statements and the management report in accordance with Section 328 (1) Sentence 4 No. 1 HGB.

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

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

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 intentional or unintentional non-compliance with the requirements of Section 328 (1) HGB. We exercise professional judgment and maintain professional skepticism throughout the assurance work. We also:

— Identify and assess the risks of material intentional or unintentional non-compliance with the requirements of Section 328 (1) HGB, design and perform assurance 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 file containing the ESEF documents meets the requirements of Commission Delegated Regulation (EU) 2019/815, in the version in force at the date of the financial statements, on the technical specification for this file.
— Evaluate whether the ESEF documents enable an XHTML rendering with content equivalent to the audited annual financial statements and to the audited management report.

Further information pursuant to article 10 of the EU audit regulation
We were elected as auditor by the annual general meeting on May 19, 2021. We were engaged by the Supervisory Board on July 28, 2021. We have been the auditor of ZALANDO SE without interruption since fiscal year 2010. ZALANDO SE has been a corporation geared to the capital market pursuant to Section 264d HGB since 2014.

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

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

- voluntary review of the company’s half-year financial statements as at June 30, 2021
- 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
- monitoring and updating the tax compliance management system
- audit of the remuneration report of the company as at December 31, 2021
- translation services

Other matter—use of the auditor’s report

Our auditor’s report must always be read together with the audited annual financial statements and the audited management report as well as the assured ESEF documents. The annual financial statements and the management report converted to the ESEF format – including the versions to be published in the *Bundesanzeiger* [German Federal Gazette] – are merely electronic renderings of the audited annual financial statements and the audited management report and do not take their place. In particular, the ESEF report and our assurance opinion contained therein are to be used solely together with the assured ESEF documents made available in electronic form.

German Public Auditor responsible for the engagement

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

Appendix to the auditor's report:

1) Parts of the management report whose content is unaudited

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

— Corporate governance statement

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

— The charts "GMV by quarter (2017-2021)" and "Revenue by quarter (2017-2021)" 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:

— the responsibility statement
— the report of the Supervisory Board
— the remuneration report
— the glossary

but not the annual financial statements, not the management report disclosures whose content is audited and not our auditor's report thereon.

Berlin, February 28, 2022

Ernst & Young GmbH
Wirtschaftsprüfungsgesellschaft

Ludwig
Wirtschaftsprüfer
[German Public Auditor]

Haas
Wirtschaftsprüfer
[German Public Auditor]

8.1 Glossary

Active customers

We define active customers as the number of customers who have placed at least one order in the last 12 months during the reporting period, irrespective of returns. The number of customers who have completely canceled their orders are excluded.

Adjusted EBIT

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

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 GMV per active customer

We define the average GMV per active customer as the average value of all merchandise sold to active customers after cancellations and returns and including VAT in the last 12 months of the reporting period.

Average orders per active customer

We define the average orders per active customer as the number of orders in the last 12 months of the reporting period, divided by the number of active customers.

Capex

The sum of the payments for investments in fixed assets and intangible assets excluding payments for the acquisition of companies.

EBIT

EBIT is short for earnings before interest and taxes.

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.

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.

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, mobile sites, tablet sites or apps) during the relevant period. The series is considered ended when a page view is not recorded for longer than 30 minutes. Due to a change in consent management following the GDPR introduction, some of the data is estimated using a statistical method.

8.2 Imprint

Editorial team and contact

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Realization and production

With the collaboration of Amana Consulting GmbH, Essen

Photo credits

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

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

zalando