

Annual Report 2019



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Zalando at a Glance

Key Figures

	Jan 1 – Dec 31, 2019	Jan 1 – Dec 31, 2018	Changes
Group key performance indicators			
Site visits (in millions)	4,178.1	3,137.2	33.2%
Mobile visit share (in %)	83.7	79.3	4.3pp
Active customers (in millions)	31.0	26.4	17.1%
Number of orders (in millions)	144.9	116.2	24.8%
Average orders per active customer	4.7	4.4	6.5%
Average basket size* (in EUR)	56.6	57.1	–0.9%
Results of operations			
Gross merchandise volume (GMV) (in EUR m)	8,207.5	6,637.8	23.6%
Revenue (in EUR m)	6,482.5	5,387.9	20.3%
EBIT (in EUR m)	165.8	119.2	39.1%
EBIT (as % of revenue)	2.6	2.2	0.3pp
Adjusted EBIT (in EUR m)	224.9	173.4	29.7%
Adjusted EBIT (as % of revenue)	3.5	3.2	0.3pp
EBITDA (in EUR m)	360.6	205.7	75.3%
EBITDA (as % of revenue)	5.6	3.8	1.7pp
Adjusted EBITDA (in EUR m)	419.7	259.9	61.5%
Adjusted EBITDA (as % of revenue)	6.5	4.8	1.7pp
Financial position			
Net working capital (in EUR m)	–147.7	–84.3	–75.2%
Equity ratio (as % of total liabilities)	38.9	47.9	–9.0pp
Cash flow from operating activities (in EUR m)	327.2	212.8	53.8%
Cash flow from investing activities (in EUR m)	–290.3	–207.0	–40.2%
Free cash flow (in EUR m)	41.6	–13.8	400.8%
Capex (in EUR m)	–306.5	–278.4	10.1%
Cash and cash equivalents (in EUR m)	976.5	995.0	–1.9%
Other			
Employees (as of the reporting date)	13,763	15,619	–11.9%
Basic earnings per share (in EUR)	0.40	0.21	93.7%
Diluted earnings per share (in EUR)	0.39	0.20	95.3%

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

Around 25,000

articles feature a sustainability flag

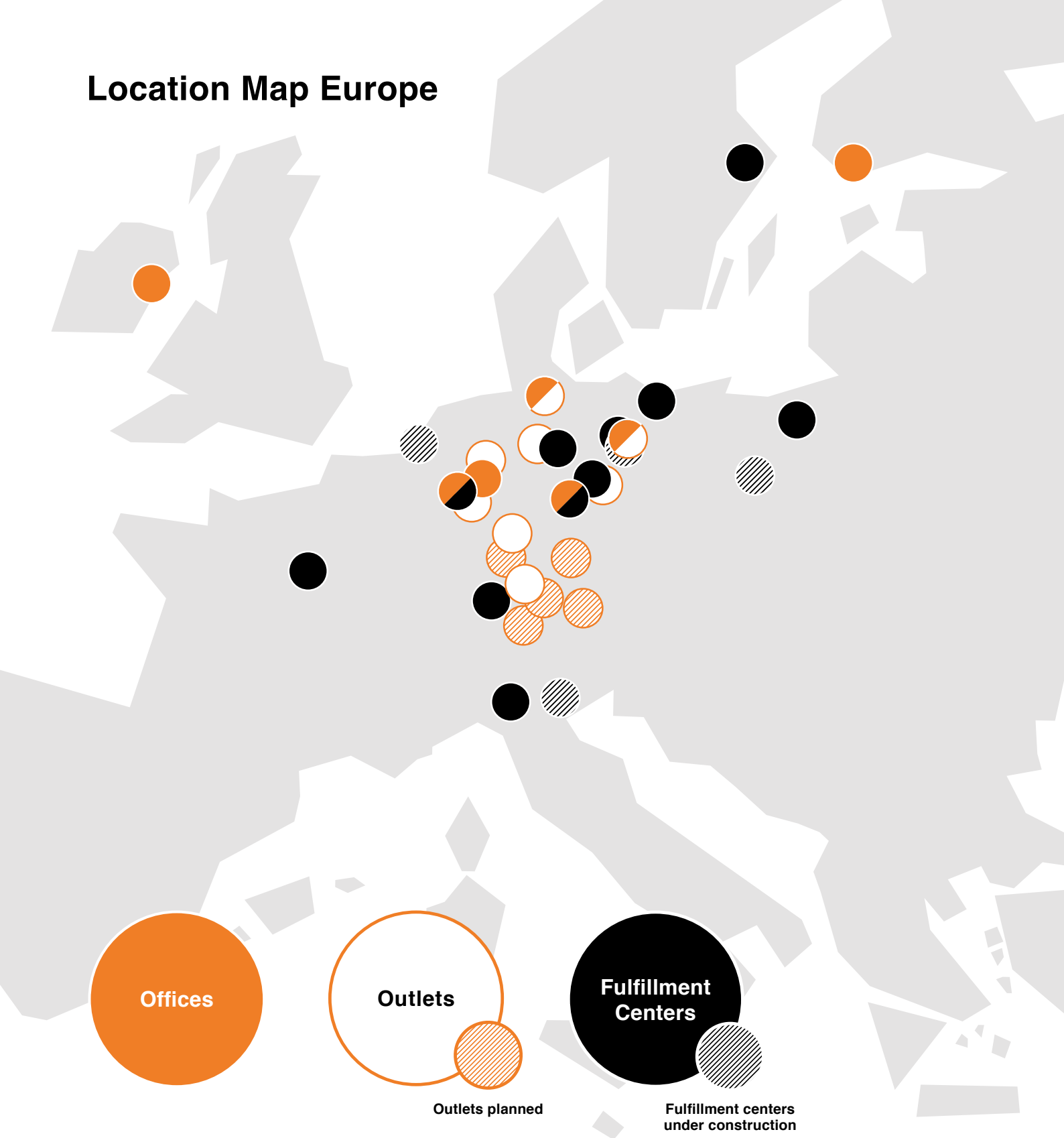
More than 2,500

brands

**Employees
from more than 130**

nations

Location Map Europe



Zalando. The Starting Point for Fashion.

Zalando is Europe's leading online platform for fashion and lifestyle. Founded in Berlin in 2008, we bring head-to-toe fashion to 31 million active customers in 17 markets, offering clothing, footwear, accessories and beauty. The assortment of international brands ranges from world famous names to local labels. Our platform is

a one-stop fashion destination for inspiration, innovation and interaction. As Europe's most fashionable tech company, we work hard to find digital solutions for every aspect of the fashion journey: for our customers, partners and every valuable player in the Zalando story.

Highlights 2019

Beauty expansion

Having been launched in spring 2018, Beauty continues to grow, expanding to new markets like Switzerland.



Starting point for fashion

To ensure future growth and push its platform transition forward, the Zalando Management Board has further refined its strategy and focused the organization on one clear goal: to become the starting point for fashion.

Fit for the future

In 2019, Zalando's Sizing team took on the challenge of size & fit using a variety of approaches such as artificial intelligence and 3D technologies.



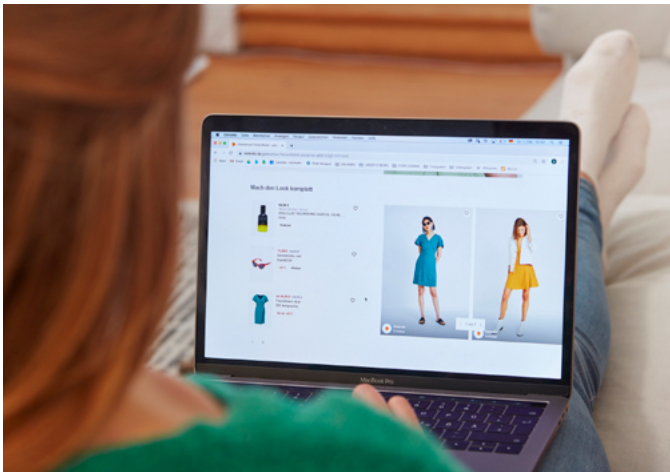
Housewarming at the new Zalando headquarters

Zalando celebrates the official opening of its new headquarters at the Berlin Campus.



Zalando enlarges Management Board

Zalando's Management Board expands with the addition of CFO, David Schröder and CTO, Jim Freeman, who join existing co-CEOs, Robert Gentz, Rubin Ritter and David Schneider.



**3rd quarter
1 billion
site visits**

Q3 sees outstanding growth with one billion site visits and a 17.5% rise in customer base to 29.5 million.



It's time to do.MORE

Zalando goes carbon neutral in its own operations with the announcement of the new sustainability strategy, do.MORE, which includes initiatives like sustainable packaging.

**Diverse and
inclusive culture**

Zalando set new targets to improve diversity. By the end of 2023, the goal is to achieve equal numbers of women and men in the top six management levels.



Shopping event Cyber Week

Record-breaking results from Cyber Week 2019 with 840,000 new customers and a 32% GMV increase from 2018.

Find out more about our highlights from 2019 and lots more news and stories on our corporate website: corporate.zalando.com

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01

1.1

Foreword



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

Dear Shareholders,

In the past year, we have taken decisive and transformative steps in order to enable our future growth.

We are continuously shaping the best possible experience for the people that matter to us the most: our customers. At the beginning of the year, we communicated our updated platform strategy, which allowed us to unite our teams behind one vision: to become the Starting Point for Fashion. To get there, we continuously evolve our assortment, our digital experience, and our convenience proposition. With around half a million fashion items and more than 2,500 brands, we are Europe's leading online fashion destination. Today, 31 million active customers find their inspiration on Zalando, and we continuously work on bringing styles to them faster and more conveniently.

All of this would not be possible without our trusted brand partners. In 2019, we invested in making it easier for brands to reach customers across Europe. Services such as Zalando Fulfillment Solutions (ZFS) and Zalando Marketing Services (ZMS) have grown strongly. As a result, we see the Partner Program share increasing. This gives customers access to more brands they love and offers

brands more opportunities to create an even better experience for consumers and to build their brand across Europe.

Supporting our team of around 14,000 employees from more than 130 nations, we aim to create an environment where talents can thrive, innovate and take their career to the next level. The revision of our diversity strategy in October 2019 underlines our ambition to foster a diverse and open culture and to be an attractive employer for people across the globe. Diversity drives better decision making, thereby boosting the overall performance of a company. That is why our new diversity targets call for gender parity on the top six leadership levels, including the Supervisory Board and the Management Board.

Another lever to ensure long-term success is our focus on becoming a more sustainable company. It will allow us to stay relevant, inspiring and deeply connected to our customers. In October 2019, we shared our aspiration to be a sustainable fashion platform with a net-positive impact for people and the planet. In this context, we made six specific commitments that will make Zalando a more sustainable company by 2023. Already today, we have made significant progress: all carbon emissions from our own operations, all deliveries, and all returns are being offset, and we intend to set Science-Based Targets in 2020 to further reduce our carbon footprint. And we offer one of the largest assortments of more sustainable fashion in Europe. By 2023 we aim to generate 20% of our GMV (Gross Merchandise Volume) with more sustainable products.

Our efforts across the year resulted in very strong financial results for 2019. We were able to combine continued strong growth and clear profitability, which is in line with the long-term ambition to serve even more customers and continue to grow our company. We are confident that our strategic direction will lead us to continued success in the years to come, and we look forward to shaping the online fashion industry in the next decade.

We thank you for your trust and your continued support on our journey.

Berlin, February 25, 2020


Robert Gentz


David Schneider


Rubin Ritter


Jim Freeman


David Schröder

1.2 Corporate Responsibility and Sustainability

1.2.1 do.THINK Ahead

- This year we are reporting final progress on the targets we set in 2017 for each of our four do.STRATEGY focus areas: employees, products, environment and society.
- With the launch of our do.MORE Strategy in 2019 we have set ourselves ambitious targets for 2023 and integrated Corporate Responsibility and Sustainability in our group strategy.
- We want to run our business responsibly and use our tech and fashion expertise to enable our customers, brands and the industry to make more sustainable choices.

Welcome from Rubin Ritter

Dear readers,

GRI 102-14

Over the last years, it has become apparent to everyone that our planet is suffering from the effects of climate change and our unsustainable use of resources. If we want to resolve this challenge, we will need to transform the way we consume, the way we develop products - and the way we run businesses. Over the last year, we have reconsidered what this means for us as a company. We started by acknowledging that we have been part of the problem. And we concluded by agreeing that we want to be part of the solution: our aspiration is to be a sustainable fashion platform with a net-positive impact for people and the planet. Our updated sustainability strategy with the title do.MORE describes how we want to start on that journey.

In this discussion, we were guided by the direction our customers are taking. We can see from our data that customers increasingly want to make more sustainable shopping decisions, and they expect us to enable them to do so. As a highly customer-centric company, we take that need very seriously. If we imagine how we will fulfill customer needs ten years into the future, I find it hard to imagine that a version of Zalando that does not meet a significantly higher bar on sustainability will still be exciting to our best customers. Building a truly sustainable platform for fashion will become a source of differentiation and competitive advantage.

To us it is exciting to imagine how we may be able to not only improve our own footprint as a company but to influence our industry overall. As the Starting Point for Fashion in Europe, our scale and our capabilities will help us to build the connections needed to transform the industry. This will require us to closely involve our partners and reach out across the entire fashion value chain. We recognize our opportunity to positively influence how brand partners make and source their products, and how customers buy and care for them later.

Becoming a sustainable fashion platform with a net-positive impact for people and planet will require more than just change. Our task is to transform the way we operate our business. This will be a long journey, but it is a journey we have already started on. We have reduced our carbon footprint per order by 29% in 2019 compared to 2017, and we have started to offset all remaining carbon emissions from our own operations, deliveries and returns. For 2020, we have committed to setting Science Based Targets to achieve further reductions in line with the Paris Agreement. And

we offer one of the largest assortments of more sustainable fashion in Europe. By 2023 we aim to generate 20% of our GMV (Gross Merchandise Volume) with more sustainable products.

In our new sustainability strategy, we have made six specific commitments on how we intend to be a significantly more sustainable company by 2023. Please find more information on this year's progress on the following pages and our updated targets in section 2.1.3 Corporate Strategy. We look forward to doubling down on our efforts, because there is still much more we can do.



Rubin Ritter

Our do.STRATEGY

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

Our do.STRATEGY

do.STRATEGY vision

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

do.GROW

Employees

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

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



do.KNOW

Products

We aim to contribute to a more sustainable fashion industry.

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



do.PROTECT

Environment

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

By improving sustainability in our offices, operations and packaging.



do.CONNECT

Societal Engagement

We aim to reimagine how corporations contribute to societal challenges.

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



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

In 2015, we built and launched our do.STRATEGY, which concentrated our efforts on where the biggest change was needed and on where we were able to make the greatest difference: employees (do.GROW), supply chain and products (do.KNOW), environment (do.PROTECT) and society (do.CONNECT). In each of these areas we worked on specific targets to measure our progress.

How We Manage Sustainability

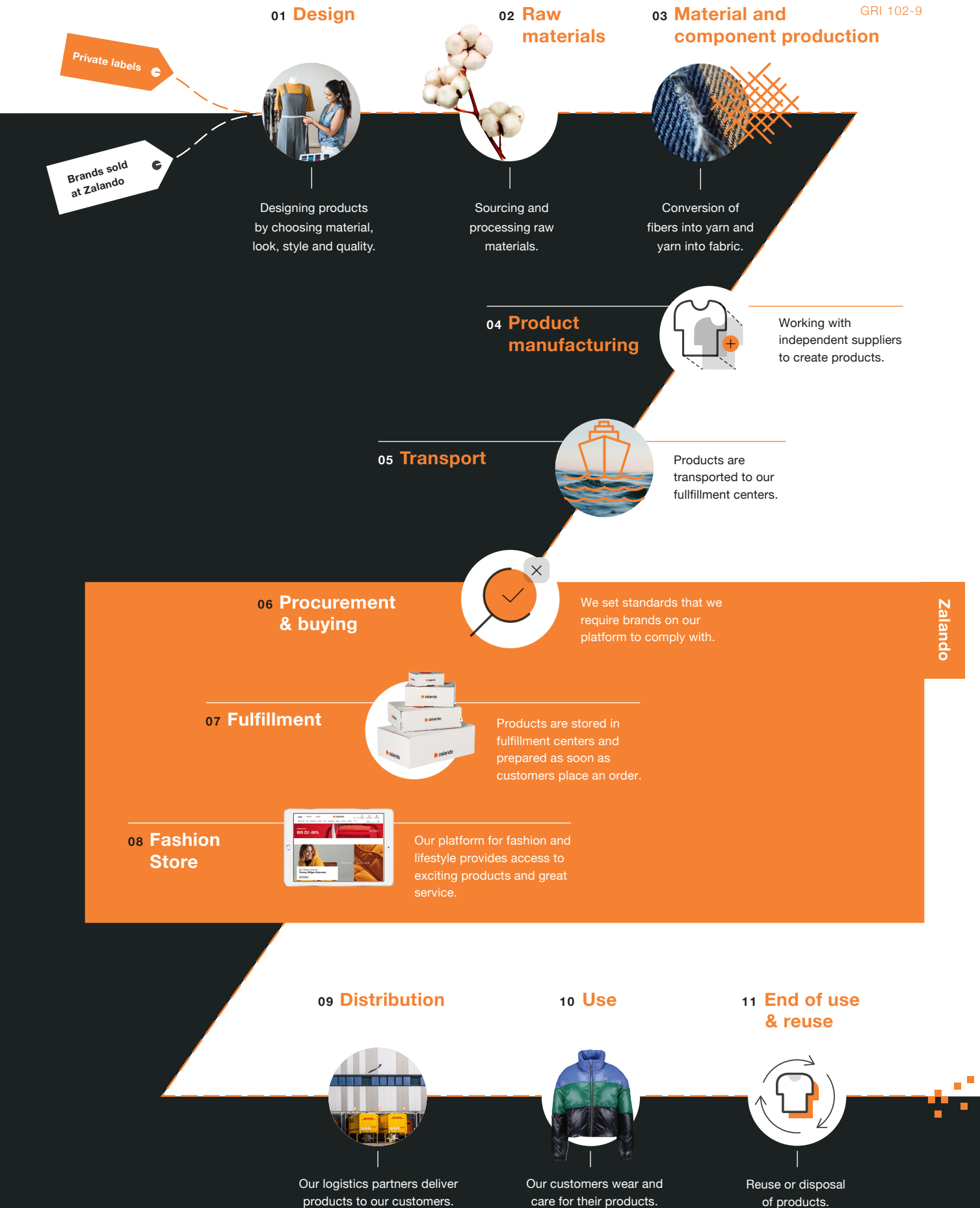
Strategic responsibility for Corporate Responsibility & Sustainability (CR&S) within Zalando lies with the Management Board, supported by the General Counsel. The CR&S Team, which reports to the General Counsel, drives the implementation of the do.STRATEGY and collaborates closely with colleagues in other teams across Zalando. The Management Board receives updates at least twice a year about the overall progress with relation to our do.STRATEGY and provides guidance on specific sustainability topics.

GRI 102-18

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

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

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



Materiality and Reporting Standards Applied

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

GRI 102-46
GRI 102-47

With the exception of our non-financial report 2019, we apply international standards of the Global Reporting Initiative (GRI) to our CR&S reporting. This report has been prepared in accordance with the GRI Standards: Core option. Readers can find the full GRI Index in section 4.2 of this annual report.

GRI 102-54
GRI 102-55

Our Non-Financial Report 2019

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

GRI 102-1
GRI 102-5

Due to the different approaches of the GRI Standards and the German implementation of the CSR Directive on Non-Financial Reporting (CSR-RUG) regarding materiality requirements, we do not apply any framework to our non-financial report 2019. The preselection of material topics for our non-financial report is based on the materiality analysis mentioned above. The 16 topics that we identified in that materiality analysis were assessed in terms of the business relevance and impact – positive as well as negative – of our business model on the corresponding topics. Six topics were identified as material as per CSR-RUG in the 2018 update. For 2019, we are reporting the same six material topics. Relevant information on each of these topics is set out below. The information on our business model can be found in section 2.1.1 Business Model of our combined management report.

2019 was a transitional year for us in many ways. While working towards achieving our do.STRATEGY targets, we also spent most of the second half-year on developing our new do.MORE strategy, which is more ambitious and closely integrated into the core of what we do (see section 2.1.3 Corporate Strategy). At the same time we worked on a new materiality assessment as per CSR-RUG. The strategy and materiality analysis are geared towards one another and both were finalized in the last quarter of 2019. This report therefore focuses on the final progress of our do.STRATEGY, while the new strategy and new materiality analysis will form the basis of our report next year.

Overview Non-Financial Report Zalando 2019

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

The Management Board receives updates on progress and gives guidance on our material topics at least twice a year. Furthermore, the Management Board was involved very closely in developing our new do.MORE strategy.

Our Risk Management Team identifies, assesses and monitors risks that might impact our business performance in a bi-annual risk cycle. The scope of the cycle also includes social and environmental risks. The material risks and opportunities are summarized in section 2.4 Risk and Opportunity Report. In preparation for our non-financial report, the CR&S and Risk Team jointly analyzed risks as well as potential negative impacts that emanate from our business and business relationships as well as from our products and services on the six material topics identified. As a result, we currently do not consider any net risks assessed to have a high probability and high negative impact on the material topics. The reason for this conclusion is that potential negative impacts are managed by the corresponding teams with adequate due diligence processes and measures.







GRI 102-11

1.2 CORPORATE RESPONSIBILITY AND
SUSTAINABILITY

1.2.2 do.GROW – Employees



do.GROW Our Performance Against Targets

	Targets	Timeline	Progress 2019	Status
Aspired outcome I: We empower people to be at their best at work.	Increase the representation of women in leadership positions to 25% on the first and 30% on the second level below the Management Board.	2022	In 2019, there were 33% women on the first and 23% on the second level below the Management Board. This target share has now been increased and the timeline extended to 2023.	
	Create an attractive and healthy work environment that fosters collaboration and entrepreneurial spirit.	2019	Introduced a health initiative within ZALANDO SE to foster a work environment for people to be at their best at work. Introduced new global logistics safety standards. Enabled leads to conduct health talks in Customer Care teams.	
	Provide fair working conditions and continuously improve standards in all fulfillment centers, regardless of location, start date or size of center.	2020	We changed the auditing company to work with a partner that has extensive European coverage to meet the growing number of locations outside of Germany and that also offers its own pool of qualified auditors.	
Aspired outcome II: We are one of the best-led tech and fashion companies in Europe, with a meaningful people platform.	Enable continuous growth and development for each employee by creating a culture that fosters performance feedback.	2020	In 2019, Zalando's tool for performance and development has evolved to include Our Founding Mindset, the new leadership principles.	
	Help employees to kickstart their leadership career and provide comprehensive support to new leaders.	2019	We launched Our Founding Mindset (a set of leadership principles that guide employees as well as leaders) and integrated them in multiple human resource processes (hiring, performance management, employee engagement survey, etc.). For new leads, the "zLeader" leadership training program has been running over the past two years.	
	Bring voluntary turnover down to 10% overall by 2020.	2020	We have invested in our campus to stay attractive for employees. Strategic changes in management and several business units led to increased fluctuation in the short term.	

 Started

 Ongoing

 Substantial progress

 Achieved

Empowering People to Be at Their Best at Work

We want to reimagine fashion for the good of all – and that starts with caring for and empowering our own people. As we continue to grow at a rapid pace, it is crucial we stay focused on building a strong company culture that encourages employees to be their best at work. This includes promoting a diverse and inclusive workplace, creating an attractive and healthy work environment and ensuring fair working conditions in logistics. This is not just about doing the right thing for its own sake. We are a business with bold aspirations – aspirations that we can only achieve with our employees.

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

Promoting Diversity and Inclusion

Whether they are a colleague or customer, we believe every person we interact with is unique and should feel both accepted and empowered to be themselves. We are proud that our business is driven by employees representing more than 130 different nationalities. By embracing different perspectives and backgrounds, we are constantly improving our talent acquisition, making better business decisions and generating fresh ideas to help serve the varied needs of our customers.

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

It has been our goal to increase the representation of women in leadership positions to 25% on the first and 30% on the second level below the management board by 2022. In 2019, we achieved 33% and 23% respectively. Additionally, our internal mentorship program matched 712 mentees with mentors this year. We are developing initiatives to create ownership of the topic across business units including a training program to create awareness and competency in D&I for employees including leaders.

GRI 405-1

This year we developed a new diversity and inclusion strategy based on the ambitious goals we have for the future. With the support of our Diversity Advisory Board and other senior stakeholders, we assembled the proposed measures that will help us achieve these goals. The new target is defined as a 40/60/* corridor where Zalando strives for women and men to reach a representation between 40 and 60 percent on the top six leadership levels by the end of 2023. The asterisk (*) acknowledges and actively includes non-binary genders. To achieve this, we are looking at how we recruit, promote and retain talent and how we set up teams.

We are also establishing a formal recognition mechanism for employee diversity groups (known as Employee Resource Groups or ERGs) who have been vital in creating a sense of belonging and community. Our Diversity Guild has continued its grassroots efforts to champion diversity and inclusion throughout the company. Our LGBTQI+¹ employee network is active in supporting the community, including leading our representation at the 2019 Christopher Street Day in Berlin. Our Women's Network, newly established in 2019, drives community building and initiatives for women at Zalando. We have created a full-time position to further support our ERGs.

We have also further implemented our internal policies according to the German Equal Treatment Act by conducting training and adding the German Equal Treatment Act to the mandatory compliance training for leads and employees. Awareness for our anti-discrimination process has grown, and we aim to continuously improve our standardized, professional process in cases of potential discrimination or (sexual) harassment.

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

1) LGBTQI+ stands for Lesbian, Gay, Bisexual, Transgender, Queer and Questioning, and Intersex and is inclusive of other identities of the community that are not listed.



Number of employees

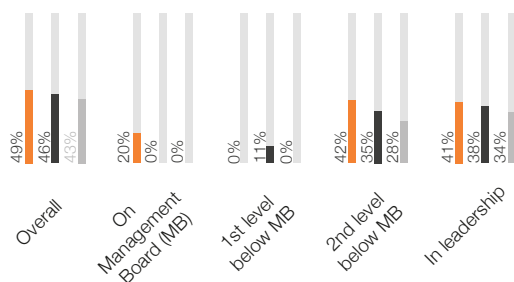
13,763

15,619

15,091



International employees

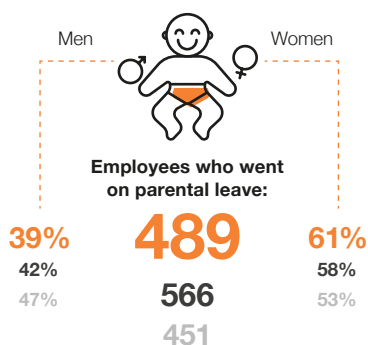


Number of nationalities

139

134 131

Parental leave



Employment types

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

1,790 (13%)

1,635 (10%)

1,171 (8%)

Thereof share women / men:

72%
Women

73%

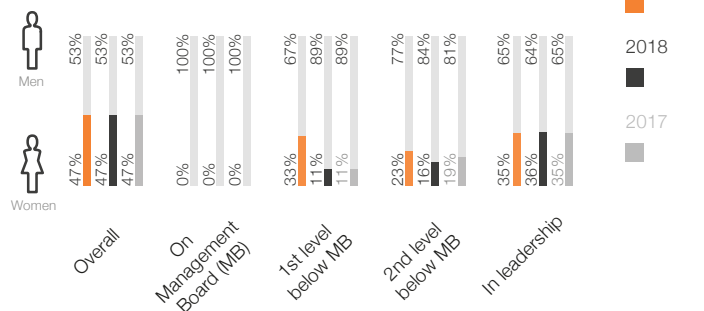
75%

28%
Men

27%

25%

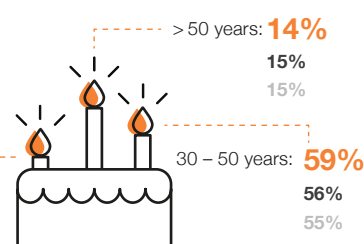
Share of women and men



Age

Age groups:

< 30 years: 27%
29%
30%



Average age:

36 37 37

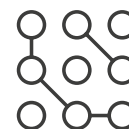
Excluding logistics:

33 33 32

Share of women in specific job groups

Share of women in technical job groups:

18%
16%
14%



Share of women in logistics:

40%
41%
35%



Contracts

Temporary contracts:
Total (and in %)

2,648 (19%)

4,364 (28%)

4,984 (33%)

Thereof share women / men:

52%
Women

48%

47%

48%
Men

52%

53%

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

Enhancing Workplace Health and Safety

By promoting a health and safety culture at all levels, we strive to provide the right conditions for people to fulfill their roles. To achieve our aspirations, we need our employees to be healthy, safe and engaged in their workplace. Therefore, we want to hold ourselves to the same high standards in all our locations. We demonstrate part of our ambition through our commitment to addressing the causes of absenteeism. Our absentee rate in 2019 was 10.2% in Zalando Logistics and 5.4% in the rest of the Zalando group.

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

Furthermore, in 2019 we implemented an health initiative within ZALANDO SE to foster a work environment for people to be at their best at work. From November onwards, we have merged cross-functional teams into one Health Team that is dedicated to working on further improving Zalando's holistic corporate health management, including healthy leadership. We established more centralized structures and processes throughout the organization that promote a health enhancing work environment. To further understand and test which working conditions have a beneficial influence on the physical and psychological health of employees, we started conducting health assessments within Customer Care and are implementing measures accordingly.

Through our commitment to Vision Zero², we are determined to eliminate accidents within our business completely. We aim to protect and promote employee health and safety as much as possible. Across the company, we apply expert advice on healthy and safe workplaces to help us shape current and future offices and fulfillment centers. To this extent and within our aim to introduce ISO 45001, we strive to combine management commitment, participation of employees and departments, and state of the art technology in developing a safe and healthy environment, nationally and internationally – and guide our logistics partners to clearly understand our expectations. Additionally, we released our new global logistics safety standards and the first audit based on them is scheduled for Q1 2020.

GRI 102-16

Health Indicators

GRI 403-2

	2019	2018	2017
Absentee rate Zalando Logistics*	10.2%	10.5%	10.6%
Absentee rate Zalando group excluding Zalando Logistics**	5.4%	5.0%	4.6%

*) Includes our fulfillment centers in Brieselang, Erfurt, Mönchengladbach and Lahr.

**) The numbers do not include Anatwine, Kickz, Zalando Digital Portugal, zLabels China, zLabels Trading Southern Europe, zLabels Trading Ltd., Logistics Entities, Zalando Outlets.

Providing Fair Work in Our Logistics

With their high level of commitment, our logistics employees ensure that our more than 31 million active customers across 17 European markets experience convenient and reliable services every day. A large part of our logistics continues to be handled by fulfillment centers operated by Zalando. Creating high standards in our logistics is a priority for us and also a business necessity in the face of high competition for a good workforce. Therefore, one of our targets in our do.STRATEGY is focused on providing fair working conditions and continuously improving standards in all fulfillment centers.

2) <https://www.dguv.de/en/prevention/visionzero/index.jsp>

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

Compliance with our social standards is reviewed twice a year for all Zalando logistics sites through an audit by an external auditor. The average result of the audits in 2019 at our own logistics sites in Brieselang³, Erfurt, Lahr, Mönchengladbach and Ludwigsfelde was 1.64, compared to 1.51 in the previous year⁴ (on a scale of 1 = very good to 4 = not sufficient). Additionally, compliance with our social standards is also reviewed twice a year at logistics sites of our fulfillment partners⁵. With the audits, we want to assess whether business partners fulfill our expectations regarding decent working standards.

GRI 102-4

The results of the audits form the basis to agree on measures to address the findings at the sites. Zalando monitors the implementation of these measures through regular meetings. In 2019, we changed the auditing company to work with a partner that has extensive European coverage to meet the growing number of locations.

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

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

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

3) In 2019 Brieselang was audited only once as an entity of Zalando, because it was taken over by a fulfillment partner as of April 1, 2019.

4) Increase due to changes in location.

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

Building a Place to Thrive with a Strong Culture

We are committed to creating opportunities for our employees to thrive. We think that access to development opportunities is a key factor in our employees' satisfaction, so we invest in this area to help improve retention. Voluntary turnover was at 13.9% in 2019 (13.0% in 2018). In 2019, we opened our new headquarters and invested in our campus to stay attractive for our employees. Strategic changes in management and several business units led to an increased fluctuation in the short term.

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

To build a workplace where our employees can thrive, we made three assumptions about the future of work. Firstly, we need to build new and meaningful learning experiences and a feedback culture that helps employees in their personal and professional development. Secondly, we believe that the nature of work will change through the growing use of technology, so we closely analyze the skills that are in high demand and for which demand will rise as those changes unfold. As an example, in 2019, we offered machine learning training to our Berlin-based employees, which more than 160 people attended. Lastly, we think that great leaders attract and develop new leaders, and this principle is central to our aspiration to become one of the best-led tech and fashion companies in Europe. We are open and explicit about the behaviors we expect to see from each other and for this we refined our mindset and culture through a revised set of leadership principles that we launched in Q1 2019. We believe in the community spirit that has helped Zalando become what it is today and working closely with great colleagues and leaders is a large part of what drives us. We invest in building leadership skills at all levels of Zalando; from our executive group to team leads in our fulfillment centers. In 2019, almost 1,000 leads participated in at least one of our training offers.

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

In our fulfillment centers, we continued the leadership development journey with our leads with an enhanced focus on transferring learnings into day-to-day work. The program provides a platform where participants can choose learning interventions to suit their individual needs, based on themes such as self-management, conflict management, feedback culture and motivational, healthy and mindful leadership. This year, we had about 580 participants in the program, in about 145 learning interventions. In our fulfillment centers, we focus on our leads' ability to inspire and foster collaboration within the team, while also acknowledging cultural diversity. To support this, we have started to pilot programs to measure and grow team effectiveness. In Customer Care we invited team leads to embark on a leadership development program to support their leadership learning in a long-term and long-lasting way.

GRI 401-1

Employment Indicators

	2019	2018	2017
Voluntary turnover rate overall*	13.9%	13.0%	11.1%
Share of women	43%	48%	49%
Share of men	57%	52%	51%
Share of age group below 30	45%	55%	47%
Share of age group 30 – 50	48%	40%	47%
Share of age group above 50	7%	5%	6%
New hires overall	4,665	4,515	5,997
Share of women	50%	46%	45%
Share of men	50%	54%	55%
Share of age group below 30	53%	53%	48%
Share of age group 30 – 50	44%	40%	44%
Share of age group above 50	3%	7%	8%

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

1.2 CORPORATE RESPONSIBILITY AND
SUSTAINABILITY

1.2.3 do.KNOW – Products



do.KNOW Our Performance Against Targets

	Targets	Timeline	Progress 2019	Status
Aspired outcome I: We are a leading online destination for sustainable fashion in Europe.	Grow the selection of sustainable fashion in our Fashion Store.	2020	In 2019, we more than doubled our assortment carrying the sustainability flag.	
	Improve the signposting, navigation and visibility of sustainable fashion in our Fashion Store.	2018	We have rolled out the sustainability filter to our app, improved the search function and made our sustainability microsite more informative and inspiring.	
	Use our unique position as a tech and fashion company to increase transparency in the fashion value chain.	2020	We have invested in seven solutions through the Humanity United Working Capital Fund and financially supported two ventures (circular.fashion & TrusTrace).	
Aspired outcome II: The social and environmental footprint of our private labels has improved.	Increase worker well-being in our factories by sourcing 25% of private label business volume from factories that take part in our Factory Improvement Program.	2018	This target was achieved in 2018. The Factory Improvement Program has been partly completed.	
	Reduce the carbon, water and waste footprint of our clothing by 10% to meet European Clothing Action Plan targets.	2019	We have achieved a footprint reduction in water (12%) and carbon (0.9%), while the waste footprint remained stable (+0.1%). We have increased the Better Cotton share of our cotton sourcing to 41%.	
	Eliminate critical heavy metals from our manufacturing process.	2020	We halved our overall testing fail rate in 2019, with the reduction of heavy metals being the most important achievement.	

Started

Ongoing

Substantial progress

Achieved

Striving to Become a Leading Online Destination for Sustainable Fashion

As one of the few companies with expert capabilities in both tech and fashion, we are in a unique position to respond to two key challenges. Firstly, transparency in supply chains, which you can read more about in the do.CONNECT section of this report, and secondly the consumer attitude-behavior gap. We know that many of our customers want to make more sustainable fashion choices. However, that attitude is not yet fully reflected in the purchasing choices they make when it comes to fashion. As a platform with more than 2,500 brands, we want to leverage our reach and make it easier for consumers to find more sustainable fashion.

Promoting More Sustainable Fashion

The interest of customers in sustainable fashion increased yet again over the past year. However, customers face three main challenges: limited assortment, discoverability of relevant products and lack of information to evaluate products according to their sustainability value. Our ambition is to help solve this challenge by offering an attractive and relevant assortment and improving our user journey to include more information on sustainability. We continue to aim at being the leading online destination for sustainable fashion by 2020 and to grow the selection of sustainable fashion in our Fashion Store. In 2019, we more than doubled our assortment carrying the sustainability flag. This flag is not a certificate but highlights more sustainable products, meaning at least one of our sustainability product criteria⁶ is fulfilled. These cover mainly two areas: less resource-intensive processing techniques such as blue-sign certification or better materials such as organic cotton or recycled polyester. Social aspects are also represented e.g. with the certifications of Fairtrade or GOTS.

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

Our strategy remains to provide relevant information and enable customers to make better choices rather than deciding for them what sustainability means. This information is collected from brands in the buying process along with other data like size and material composition. We continuously work on improving the criteria for this flag as there is currently no official global standard. As a member of the Sustainable Apparel Coalition (SAC), we want to develop an aligned industry standard. Over the last year, we worked on improving the user experience for customers to find this assortment. We rolled out the sustainability filter to our app, improved the search and updated our sustainability microsite to be more informative and inspiring. We also invested into dedicated marketing for sustainability products via weekly teasers in our shop and marketing campaigns via social media, mailings and onsite placements. Our Sustainable Fashion Steering Committee, which is attended by a Management Board member, meets every six weeks to discuss these developments.

Yet there is a long way to go and we cannot do it alone. We continue to collaborate closely with our brand partners to achieve our vision of becoming a leading online destination for sustainable fashion. Testimony to this was our dedicated sustainability Partner Day in October where we invited key brands in order to foster joint learning on how to make ambitious progress on more sustainable assortments but also on how to improve in areas such as packaging. We also participate in wider initiatives to move the needle of our industry as a whole. We are members of the Textile Exchange, the Global Fashion Agenda (GFA) and continue to be a partner of the innovation accelerator Fashion For Good (see do.CONNECT).

6) Current sustainability product criteria: eco-material (min. 50% lyocell, linen, hemp, jute, LENZINGTM VISCOSE, LENZINGTM ECOVEROTM, LENZINGTM TENCELTM, Birla Spunshades, FSC wood/paper), organic cotton (min 50%), recycled material (min 20% polyester, cotton, nylon, wool, down feathers, rubber, leather, cellulosic fibres), Better Cotton (BCI), eco-processing (bluesign®, SteP by OEKO-TEX®, OEKO-TEX® Made in Green). Certifications: fairtrade, Global Organic Textile Standard (GOTS), Organic Content Standard (OCS), Global Recycle Standard (GRS), EU Ecolabel, Responsible Wool Standard (RWS), Responsible Down Standard (RDS), Leather Working Group (LWG), IVN Naturleder, Terracare.

In addition to the work on product flagging, we work with brands, manufacturers and NGOs within the SAC to create alignment, drive transparency and increase sustainability performance across the industry. We use the Higg Index⁷ to measure and improve our own private label sustainability performance. Within our new strategy, it is our goal for 2023 to continuously increase our ethical standards and only work with partners who align with them. To achieve this, we are developing a brand assessment approach for our third-party brands.

Our Codes and Standards for People and the Planet

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

Our Code of Conduct sets the standards that we expect our business partners and their subcontractors to comply with, such as minimum wage, freedom of association and the absence of forced labor, child labor, and discrimination. It is based on the internationally recognized principles of the United Nations Universal Declaration of Human Rights (UDHR) and the Conventions of the International Labor Organization (ILO) No. 1, 29, 87, 95, 98, 105, 111, 131, 138 and 155.

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

Our Ethical Sourcing Standards include guidance based on Directive 98/58/EC concerning the protection of animals kept for farming purposes and the standards of the World Organisation for Animal Health (OIE). We do not sell any products that originate from endangered species listed in either the CITES or the IUCN list of endangered species, and we are a Fur Free Retailer. Our Ethical Sourcing Standards also cover responsible marketing and prohibited activities such as sandblasting.

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

Our Restricted Substance List (RSL) specifies the chemical limits permitted in our products in line with (EG) No 1907 / 2006 REACH and all applicable standards set by international markets. Our contractual partners and suppliers are obliged to deliver products in compliance with the requirements of the RSL. We carry out tests across our product range, with the RSL regularly reviewed and updated in line with legislation. We expect our brands and supply partners to implement a robust chemical management system.

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

This year we launched a new version of our Quality Assurance Manual for third-party brands. This comprehensive document exhaustively describes Zalando requirements and standards in order to provide our customers with safe and high-quality products.

We continue to monitor product compliance proactively and reactively. Proactively: as part of our onboarding process, e.g. by using a product safety questionnaire. Reactively: we monitor a variety of information streams, including the EU Rapex Alert system and our Customer Care complaints, to react quickly to any safety concerns.

7) The Higg Index is a suite of tools developed by the SAC that enables brands, retailers and facilities to measure and score a company's or a product's sustainability performance.

We are actively working with partners in the industry to manage issues that arise, update standards regularly and develop a range of detailed policies. Our testing regime is constantly monitored to identify specific areas for improvement. As a part of our compliance strategy and in close collaboration with Intertek, we launched the Zalando Product Safety Portal for third-party brands in 2019. Based on random selection and a risk-based approach, third-party suppliers and brands will be required to submit test certificates as proof of compliance. This will enable better control and transparency on the product range offered by Zalando.

Improving the Social and Environmental Footprint of Our Private Labels

Zalando refined its private label assortment to pursue a complementary strategy with our partner brands. As a consequence, the private label business within and under the name of zLabels GmbH was discontinued as of April 1, 2019 and the remaining five labels have been integrated into the Zalando Fashion Store business.

GRI 102-9
GRI 102-10

Zalando sells more than 2,500 brands and owns five labels. For these five labels, we source products from 15 different countries, and currently work with 131 sourcing partners and 212 factories, a nearly 50% decrease in comparison to 2018. Our five main sourcing countries in 2019 were China, Bangladesh, India, Turkey and Portugal. Due to the size and variety of our assortment, we do not own any of the factories in our supply chain and therefore focus on strengthening our relationships with key sourcing partners. We aim to collaborate with business partners who share our vision of having a net-positive impact on people and the planet.

Enhancing Worker Well-Being

A crucial part of our work for our private labels is confirming that our sourcing partners comply with our Zalando group-wide Code of Conduct⁸ and treat workers with dignity. As members of the Social Labor and Convergence Project⁹, we have aligned our audit program with their standards to reduce audit fatigue across the industry. We are also members of ACT (Action, Collaboration, Transformation), a multi-stakeholder agreement to progress towards living wages through collective bargaining at industry level.

GRI 102-13

We evaluate all factory audits against our internal non-compliance matrix, which is based on our Code of Conduct and local legal requirements. The findings on non-compliance are grouped into minor, major and critical, and a rating is then given to the factory and a Corrective Action Plan (CAP) is issued if necessary. We updated our country requirements, building on country risk categorization, and developing new country sourcing policies, while also reviewing our policies for subcontracting, migrant workers and homeworkers. As in 2018, we continued our Supplier Partnership Program (SPP), led by our Sourcing Team, which evaluates sourcing partner performance across a range of areas, of which Ethical Trade requirements contribute 12.75% to the score, to improve performance and incentivize high-performing sourcing partners.

GRI 103-1/-2/-3 MA
- Freedom of Association and Collective Bargaining
- Child Labor
- Forced or Compulsory Labor
- Human Rights Assessment
- Supplier Social Assessment
GRI 308-2
GRI 407-1
GRI 408-1
GRI 409-1
GRI 412-1
GRI 414-1
GRI 414-2

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

9) <https://slconvergence.org/>

As part of our onboarding process, new sourcing partners must agree to our Code of Conduct and provide an audit report from the last twelve months. Factories must meet all ethical requirements before orders can be placed. If critical findings are observed, we do not begin the relationship without evidence that they have been corrected. In the past year, we rejected the onboarding of 14 factories due to non-compliance.

For existing factories, we require new audits every twelve months to monitor and reassess factory conditions. In 2019, we evaluated 283 audit reports for new and existing factories. If a critical instance of non-compliance is found at an existing factory, the factory has seven months to remediate the critical instance along with a new audit. We require evidence of improvement to continue our relationship with the sourcing partner.

Our Ethical Trade & Sustainability Team conducted 27 factory visits in 2019, working closely with our partners to develop customized improvement plans to address specific social challenges. Gaining transparency throughout our supply chain is an important focus for us. In 2019, we disclosed the list of our strategic Tier 1 suppliers (representing 80% of sourcing volume), and 100% of Tier 1 suppliers for our private label ZIGN. We will continue to disclose these in 2020.

In October 2019, our Vendor Summit was held in Berlin and was attended by 76 of our sourcing partners. Through a series of workshops and panel discussions, we engaged our business partners to collaborate and build stronger partnerships.

Our Factory Improvement Program (FIP) was concluded in 2019, including the China Factory Improvement Collaboration (CFIC) program and Benefits for Business and Workers (BBW). Projects with the International Labour Organisation (ILO), the German Corporation for International Cooperation (GIZ) and Swasti will continue into 2020.

Increasing the Sustainability of our Products

We are committed to reducing our environmental impact. We want to do this by using more sustainable materials, designing products with their next lives in mind and making sure we only produce what our customers really want through better use of data and improved stock management. We joined the European Clothing Action Plan (ECAP) in 2016 and committed to reducing the carbon, water and waste footprint of our clothing by 10% by 2019, by switching to more sustainable alternatives for the most important materials we use. Although our footprint increased in absolute terms compared to our 2015/2016 baseline due to a growth in sales over the length of the program, we managed to significantly reduce our water footprint on average per ton of fiber by 12%, or an equivalent of 2,633 bathtubs, mostly driven by our increase in sourcing Better Cotton. We also saw a small decrease in our carbon footprint per ton of fiber (-0.9%) and our waste footprint remained stable (+0.1%).

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

In 2019, we also worked to increase visibility of Tier 2 and 3 suppliers, with a focus on cotton and leather. We now source 25% of our leather production (by volume) from environmentally responsible manufacturers audited and certified by the Leather Working Group protocol. 100% of the leather products sold under our private label ZIGN have been manufactured in certified tanneries.

1.2 CORPORATE RESPONSIBILITY AND
SUSTAINABILITY

Our Key Materials

Material by volume	Challenge / issue	Progress	Plans
Cotton 45% (apparel)	<ul style="list-style-type: none"> - Traditionally resource-intensive crop - Requires large amounts of water and pesticides to grow 	<ul style="list-style-type: none"> - We are a member of the Better Cotton Initiative, which trains farmers to use water efficiently, care for soil health and natural habitats, reduce harmful chemicals and respect the rights and well-being of workers - In 2019 we sourced 41% of our total cotton as Better Cotton (6.8% in 2018), or 806 metric tons (MT) out of a total of 1,944 MT 	<ul style="list-style-type: none"> - We are committed to sourcing 50% (or an estimated 1,000 MT) of our cotton as Better Cotton by end of 2020 - Our focus lies on scaling the use of recycled and organic cotton across all our products
Polyester 31% (apparel)	<ul style="list-style-type: none"> - Made from non-renewable fossil fuels - Requires significant amounts of energy to be manufactured into fabric 	<ul style="list-style-type: none"> - Using recycled polyester helps to save energy, reduce emissions and divert plastic bottles from landfill - In 2019, we used 1.48 MT of recycled polyester (0.53 MT in 2018) 	<ul style="list-style-type: none"> - We will review our use of polyester - We will consolidate our recycled polyester sourcing
Viscose 11% (apparel)	<ul style="list-style-type: none"> - Semi-synthetic fiber made from wood pulp - Risk of being sourced from ancient and endangered forests - Production is associated with negative environmental impacts 	<ul style="list-style-type: none"> - We are a signatory to the CanopyStyle initiative, which is committed to sourcing from sustainably managed forests - We have included extra requirements in the Prohibited Activities policy - In 2019, 9% of the viscose we used came from Lenzing, a sustainability leader in viscose production 	<ul style="list-style-type: none"> - We will increase the share of more sustainable viscose and other man-made cellulosic fibers, such as LENZING™ VISCOSÉ, LENZING™ ECOVERO™, LENZING™ TENCEL™ (modal and lyocell) and generic lyocell
Leather 27% (footwear and soft accessoires)	<ul style="list-style-type: none"> - Complex production process - Associated with social and environmental issues, i.e. chemical management and waste water treatment 	<ul style="list-style-type: none"> - 25% of the leather we source (by volume) comes from tanneries that are audited and certified by the Leather Working Group protocol 	<ul style="list-style-type: none"> - We will further increase visibility through our leather supply chain - We will further shift production to LWG-certified tanneries

In line with the Zalando Group Ethical Sourcing Standards, we have banned the use of mohair from the Autumn/Winter 2019 season onwards. Starting Spring/Summer 2020, we will also remove cashmere from our private label assortment and continue to collaborate with our brand partners to explore more sustainable alternatives to conventional cashmere. We recently renewed our Responsible Down Standard certification for our down products, which ensures holistic respect for animal welfare throughout the supply chain and prohibits force feeding and the removal of down and feathers from live birds. We also continue to focus on providing a strong assortment for our vegan customers.

GRI 102-16

In addition to our focus on increasing the amount of sustainable materials used in our private label collections, we are also committed to ensuring that our products are manufactured sustainably through our adoption of the Higg Index, developed by the Sustainable Apparel Coalition (SAC). In 2019, 14% of our Tier 1 private label supply base (based on business volume) completed the Higg Facility Environmental Module, which helps to track and improve areas such as greenhouse gas emissions, water use and waste. We will continue to increase enrollment of our sourcing partners in the Higg Index and have made participation an added requirement in order to highlight private label products onsite with the sustainability flag.

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

Ensuring the Quality of Our Products

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

As part of this, in 2018 we joined forces with the Deutsche Gesellschaft für Internationale Zusammenarbeit (GIZ) GmbH and this year we continued to implement a training program, "Improving Chemical Management through More Sustainable Practices in Chinese Shoe Factories" which seeks to tackle the industry-wide challenge of addressing the increasingly high levels of volatile organic compounds (VOCs) observed in factories from chemical use and the harmful impact this can have on workers, the environment and end product.

GRI 102-12

The chemical management systems of all 12 factories have been assessed, to define the action plans for each factory and provide a clear roadmap for achieving a higher standard. To tackle the issue at root cause, a total of 54 chemicals have been further tested for their VOCs composition to reveal their risk level and then look for substitution. Regarding training, chemical experts from TÜV Rheinland have trained 90 factory managers and workers on chemical management systems, related standards and chemical knowledge. 22 of them took up further soft skill development to prepare for the internal roll out of the training to their factory workers planned for next year.

The Testing Team has also continued a program that aims to remove heavy metals from our supply chain. This initiative has already successfully solved a relevant share of the failures connected with heavy metals and was the main driver for the halving of our overall testing fail rate. We continue to focus especially on two heavy metals – chromium VI (Cr(VI)) and lead (Pb). Chromium VI is a parameter of great interest throughout the industry as very strict legal regulations are in place and the complexity of controlling is well known. To avoid associated chromium failures, we are connecting to leather tanneries via our suppliers, ensuring that the processes and chemicals used fulfill the necessary quality standards. Lead on the other hand is mainly seen in small metal parts, so a main method of prevention is to ensure that suppliers use trims from a safe origin, e.g. through pre-testing or from a certified source.

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

1.2 CORPORATE RESPONSIBILITY AND
SUSTAINABILITY

1.2.4 do.PROTECT – Environment



do.PROTECT Our Performance Against Targets

	Targets	Timeline	Progress 2019	Status
Aspired outcome I: We have mobilized our full climate protection potential across our value chain.	Reduce CO ₂ emissions per order by 10% by 2020, compared to 2017 levels.	2020	We continuously looked into possibilities of procuring electricity from renewable energies and, additionally, pursued the possibility of offsetting emissions. We reduced our CO ₂ emissions per order by 29%, compared to 2017 levels.	
	Require and enable 100% of our packaging suppliers and nationwide carrier partners to provide us with CO ₂ data and commit to reducing CO ₂ emissions by 2020.	2020	One packaging supplier and 27 out of 31 CEP carriers provided us with CO ₂ data.	
Aspired outcome II: We have taken sustainable packaging to the next level.	We want 100% of the packaging procured by Zalando to be sustainably sourced.	2020	We conducted a pilot project with RePack to test reusable packaging, switched our polybags from virgin plastic to more than 60% recycled content and beauty bags are being switched from virgin plastic to 100% recycled paper.	

Started

Ongoing

Substantial progress

Achieved

Reducing Our Ecological Footprint

Climate change is one of the defining challenges of our time. It poses significant risks to our business, employees, partners, customers and communities across the world. In 2019, we continued our work within our climate protection strategy, which sets out our ambition to decouple our growth from our environmental footprint, with a twin focus on resource efficiency and renewables.

Since the new strategy was announced in October, we achieved carbon neutrality in our own operations (scopes 1 and 2) and in customer deliveries and returns including packaging (outbound logistics) through the procurement of carbon offsets to the amount of 47,720t. We have piloted and launched a check-out feature for customers to contribute to our carbon neutral deliveries with a fee of 25 ct including VAT. For further reductions, we will set Science Based Targets in 2020.

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

Our Carbon Footprint

Due to our business growth this year, our total market-based greenhouse gas (GHG) emissions increased by 6% to 262,511 metric tons of carbon dioxide equivalent (t CO₂e)¹⁰. This increase was mainly driven by a 6% rise in our scope 3 emissions, with 63% of that figure coming from customer deliveries. Our total location-based emissions were 323,112 metric tons – a 13% increase from 2018.

Relative metrics such as emissions per order help us to track and improve the efficiency of our overall operations. It is our target to reduce CO₂ emissions per order by 10% by 2020, compared to 2017 levels. In 2019, this totaled 1.81 kg CO₂e per order, a 29% decrease from 2017.

Greenhouse Gas Emissions

IN METRIC TONS CO ₂ EQUIVALENT (T CO ₂ E)	2019	2018	2017
Scope 1	5,904	5,701	4,935
Scope 2*	2,271	1,678	21,290
Scope 3	254,336	240,462	183,425
Total (Scope 1, 2, 3)	262,511	247,841	209,650
Emissions neutralized by carbon offset projects	47,720	700	–
Net carbon emissions	214,791	247,141	209,650
Carbon intensity (kg CO₂e / order)**	1.48	2.13	2.54

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

*) The Scope 2 emissions displayed are market-based values. The location-based value for 2019 is 58,828t CO₂e.

**) This indicator has been calculated based on the net carbon emissions.

CO₂ Emissions by Source*

	2019	2018	2017
Outbound logistics	61%	60%	55%
Packaging	18%	13%	12%
Employee commuting	6%	10%	6%
Energy**	6%	7%	15%
Inbound logistics	5%	5%	6%
Business travel	4%	5%	6%

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

**) Energy emissions contain all our offices and offline-stores with more than 40 employees and our logistic locations in Brieselang, Erfurt, Lahr, Mönchen-Gladbach, Verona (Nogarole Rocca), Szczecin (Gryfino), Łódź (Głuchow) and Olsztyn

**) Of this, 12,907 MWh were sourced by ZALANDO SE, which represents 10% of the total energy consumption of the Zalando Group.

¹⁰⁾ Greenhouse gas emissions are disclosed as CO₂ equivalents (CO₂e). All greenhouse gases regulated by the UN Kyoto Protocol have been accounted for: carbon dioxide (CO₂), methane (CH₄), nitrous oxide (N₂O), sulfur hexafluoride (SF₆), hydrofluorocarbons (HFCs), and perfluorocarbons (PFCs). For better legibility, the emissions are simply referred to as carbon emissions and reported in metric tons of CO₂.

Furthermore, by 2020, we want 100% of our packaging suppliers and nationwide carrier partners to provide us with CO₂ data. In 2019, we received carbon data from 87% of our nationwide CEP-carriers. Also, one out of 29 packaging suppliers (corresponding to 28% of sourced plastic packaging by weight) shared carbon data with us.

Optimizing our Energy Performance

In 2019, we successfully implemented an energy management system according to ISO 50001 for the entire ZALANDO SE, including our own operated warehouses in Mönchengladbach, Erfurt and Lahr.

GRI 103-1/-2/-3 MA Energy
GRI 102-4

We have continued to source 100% green energy across almost all our German offices, our own German fulfillment centers and the Polish fulfillment centers. This includes investment in a gold standard afforestation carbon offset project to account for the emissions generated by our heating consumption at these centers. Additionally, photovoltaic systems were installed on the warehouses in Lahr and Verona.

Energy Consumption*

IN MWH	2019	2018	2017
Electricity (total)	98,895	74,164	50,840
Electricity from renewable sources	97,432	73,887	22,840
District heating	9,385	8,235	11,864
Natural gas	22,315	20,388	20,296
Car fleet	1,163	1,224	1,402
Total	131,758	104,011	84,402

GRI 302-1

*) The figures include the logistics locations in Brieselang, Erfurt, Lahr, Mönchengladbach and Verona (Nogarole Rocca), Szczecin (Gryfino) Olsztynek and Lodz (Gluchow) and all administrative locations with more than 40 employees as of December 31, 2019.

Reimagining Packaging and Waste

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

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

Sustainable packaging is thus becoming a more strategically relevant topic and is an important customer touchpoint for Zalando. Within our new strategy, it is our goal for 2023 to design our packaging to minimize waste and keep materials in use, specifically eliminating single-use plastics.

At Zalando, we are committed to reducing the amount of resources we use as well as finding new ways to reuse, recycle and recover post-consumer waste. Packaging plays an essential role in protecting our products until they reach our customers. In 2019, we used more than 44,000 metric tons of packaging materials, 91% of which came from renewable sources.

Enhancing Our Sustainable Packaging

We intend to both reduce the volume of packaging we use and switch to 100% sustainable packaging materials by 2020¹¹. The following principles guide us in assessing the sustainability of our packaging materials:

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

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

In addition to Zalando boxes made from 100% recycled paper and shipping bags made from 80% post-consumer recycled (PCR) material, this year we introduced polybags (thin protective sleeves around textiles) that are made from over 60% recycled plastic.

In Q3 2019, we also launched a pilot to test reusable packaging where customers in Finland, Norway, Sweden and Denmark received Zalando orders in reusable RePack shipping bags. In contrast to disposable packaging, reusable packaging keeps materials out of the waste stream and reduces carbon emissions by avoiding the production of new single-use packaging. The results of this pilot will help us evaluate the feasibility of integrating reusable packaging solutions into existing logistics processes and better understand implications on customer perceptions.

Reducing Our Waste

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

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

Total Weight of Waste by Type and Disposal Method

GRI 306-2

IN METRIC TONS*	2019	2018	2017
Non-hazardous waste	22,112	18,912	17,693
Waste disposal method			
Recycling	19,794	16,763	15,821
Reuse	7	20	58
Recovery, including energy recovery	1,803	1,916	864
Waste incineration	508	213	950
Hazardous waste	2	2	1
Total	22,114	18,914	17,694

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

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

1.2.5 do.CONNECT – Societal Engagement



do.CONNECT Our Performance Against Targets

	Targets	Timeline	Progress 2019	Status
Aspired outcome I: Zalando has leveraged its unique mix of resources to scale existing solutions for social impact.	Strengthen the ecosystem by contributing to at least three existing programs that create solutions to societal challenges (including refugee integration, community inclusion and value chain transparency).	2018	This target was already achieved in 2018. This year we continued partnerships with Fashion For Good and Humanity United Working Capital Fund.	
	Substantially contribute to scaling at least five solutions with the potential to increase value chain transparency in the fashion industry.	2020	We invested in seven solutions through the Humanity United Working Capital Fund and financially supported two ventures (circular.fashion & TrusTrace).	
Aspired outcome II: Zalando employees have become change-makers in their communities.	Leverage the professional expertise of our employees by increasing our skills-based volunteering.	2020	In 2019, we saw a slight decrease in skills-based volunteering. We will continue our efforts to leverage the professional expertise of our employees.	
Aspired outcome III: We pioneered ways to increase impact orientation in corporate citizenship.	Enable NGO's to collaborate with business in capacity building programs.	2018	This target was achieved in 2018. In 2019, further offers were added through our Partner Vostel and Berlin Social Academy.	
	Test different methodologies to measure our societal impact.	2019	We have worked with our internal people analytics team to measure the impact of volunteering on the business. We also set up a framework for the theory of change and measurement of the zImpact program.	

Started

Ongoing

Substantial progress

Achieved

Using Tech for Good

We are using technology to reimagine fashion for the good of all. In 2018, we launched zImpact, our accelerator program, to scale innovative digital solutions to increase supply chain transparency. We believe that greater transparency is an important way to drive change, enabling companies and consumers to turn information into informed choices and in turn creating a better fashion industry for all. Since the beginning of the program, we have built a pipeline of around 90 for-profit and non-profit organizations that use technology to increase supply chain transparency. Among these we have supported more than 40 startups, initiatives and NGOs with visibility, funding and the expertise of our employees. Furthermore, it is our target to substantially contribute to scaling at least five solutions by 2020 with the potential to increase value chain transparency in the fashion industry. We have substantially contributed to scaling seven solutions through our membership in Humanity United Working Capital Fund, and additionally financially supported two ventures (circular.fashion and TrusTrace).

Our zImpact Accelerator



Within the zImpact framework we also ran another hackathon series in 2019 on supply chain transparency, thus building on our experience from last year and supporting 15 participating ventures. We also facilitated an event in which more than 100 attendees from industry partners, including innovators and experts worked on supply chain transparency challenges.

Beyond that we ran a pilot with the venture Sustainabill to identify the barriers to suppliers sharing data in the supply chain. Furthermore, we are participating in the Organic Cotton Traceability Pilot, which is about tracing organic cotton from farms to the gin where it is processed for textile use.

With the development of our new sustainability strategy we have taken the opportunity to streamline our programming and align more closely with industry initiatives. For this reason, we will phase out the zImpact accelerator, but will instead continue to support innovative ventures through our partnership with Fashion For Good and focus more on the implementation of these solutions into our business. We want to support selected innovators in building further capacity to be able to enter the market. Therefore, we will be providing five ventures with more knowledge on impact management and impact investment through our partner Roots of Impact. For 2020, we plan to share our findings from zImpact accelerator with the industry through events and reports.

Strengthening Diverse Communities

As a large employer, we want to play an active role in our communities around our company's locations. We support all our employees in doing this by providing two days a year for volunteering. In 2019, 1,120 employees from all Zalando sites provided support for 91 initiatives in 1,242 shifts, creating shared value for both the charities we support and our employees. Beyond our local volunteering activities across the Zalando sites, we participated for the third time in the Berlin Social Academy with six other companies to support non-profit organizations with pro bono expert workshops. Many employees and volunteers from non-profit organizations need specialist knowledge for their work, but do not have sufficient financial means to acquire this knowledge in further education. In order to close this gap, employees from companies participating in the Berlin Social Academy pass on their know-how in the form of courses and workshops to facilitate a subject-specific exchange.

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

Contributing to Humanitarian Aid

In 2019, we donated EUR 100,000 in in-kind donations and spent EUR 75,000 from our disaster relief fund to respond to global crises. We have a fast and efficient infrastructure via betterplace.org to make sure our contribution is used in a way that is transparent and that allows us to involve our employees and customers in the donation process.

1.2.6 Independent Auditor's Limited Assurance Report

The assurance engagement performed by Ernst & Young (EY) relates exclusively to the German version of the combined non-financial report 2019 of ZALANDO SE. The following text is a translation of the original German Independent Assurance Report.

To ZALANDO SE, Berlin

We have performed a limited assurance engagement on the non-financial report of ZALANDO SE according to § 289b HGB ("Handelsgesetzbuch": German Commercial Code), which is combined with the non-financial report of the group according to § 315b HGB, consisting of the disclosures in the chapter "1.2 Corporate Responsibility and Sustainability" of the annual report highlighted through the indentation of the paragraph and the black line next to the text, as well as the chapters "2.1.1 Business Model" in the group management report and "1.4.2 Corporate Governance" in the Corporate Governance Report being incorporated by reference for the reporting period from 1 January 2019 to 31 December 2019 (hereafter combined non-financial report). Our engagement exclusively relates to the information highlighted by the indentation of the paragraph and the black line next to the text in the German PDF version of the annual report. Our engagement did not include any disclosures for prior years.

Management's Responsibility

The legal representatives of the Company are responsible for the preparation of the combined non-financial report in accordance with §§ 315c in conjunction with 289c to 289e HGB.

This responsibility includes the selection and application of appropriate methods to prepare the combined non-financial report as well as making assumptions and estimates related to individual disclosures, which are reasonable in the circumstances. Furthermore, the legal representatives are responsible for such internal controls that they have considered necessary to enable the preparation of a combined non-financial report that is free from material misstatement, whether due to fraud or error.

Auditor's Declaration Relating to Independence and Quality Control

We are independent from the Company in accordance with the provisions under German commercial law and professional requirements, and we have fulfilled our other professional responsibilities in accordance with these requirements.

Our audit firm applies the national statutory regulations and professional pronouncements for quality control, in particular the by-laws regulating the rights and duties of Wirtschaftsprüfer and vereidigte Buchprüfer in the exercise of their profession [Berufssatzung für Wirtschaftsprüfer und vereidigte Buchprüfer] as well as the IDW Standard on Quality Control 1: Requirements for Quality Control in audit firms (IDW Qualitätssicherungsstandard 1: Anforderungen an die Qualitätssicherung in der Wirtschaftsprüferpraxis (IDW QS 1)).

Auditor's Responsibility

Our responsibility is to express a limited assurance conclusion on the combined non-financial report based on the assurance engagement we have performed.

We conducted our assurance engagement in accordance with the International Standard on Assurance Engagements (ISAE) 3000 (Revised): Assurance Engagements other than Audits or Reviews of Historical Financial Information, issued by the International Auditing and Assurance Standards Board (IAASB). This Standard requires that we plan and perform the assurance engagement to obtain limited assurance about whether the combined non-financial report of the Company has been prepared, in all material respects, in accordance with §§ 315c in conjunction with 289c to 289e HGB. In a limited assurance engagement the assurance procedures are less in extent than for a reasonable assurance engagement and therefore a substantially lower level of assurance is obtained. The assurance procedures selected depend on the auditor's professional judgment.

Within the scope of our assurance engagement, which has been conducted between December 2019 and February 2020, we performed amongst others the following assurance and other procedures:

- Inquiries of employees regarding the selection of topics for the combined non-financial report, the risk assessment and the concepts of ZALANDO SE for the topics that have been identified as material,
- Inquiries of employees responsible for data capture and consolidation as well as the preparation of the combined non-financial report, to evaluate the reporting processes, the data capture and compilation methods as well as internal controls to the extent relevant for the assurance of the combined non-financial report,
- Identification of likely risks of material misstatement in the combined non-financial report,
- Inspection of relevant documentation of the systems and processes for compiling, aggregating, and validating data in the relevant areas, e.g. climate protection, in the reporting period and testing such documentation on a sample basis,
- Analytical evaluation of disclosures in the combined non-financial report,
- Inquiries and inspection of documents on a sample basis relating to the collection and reporting of selected data,
- Evaluation of the presentation of disclosures in the combined non-financial report.

Assurance Conclusion

Based on our assurance procedures performed and assurance evidence obtained, nothing has come to our attention that causes us to believe that the combined non-financial report of ZALANDO SE for the period from 1 January 2019 to 31 December 2019 has not been prepared, in all material respects, in accordance with §§ 315c in conjunction with 289c to 289e HGB.

Intended Use of the Assurance Report

We issue this report on the basis of the engagement agreed with ZALANDO SE. The assurance engagement has been performed for the purposes of the Company and the report is solely intended to inform the Company as to the results of the assurance engagement and must not be used for purposes other than those intended. The report is not intended to provide third parties with support in making (financial) decisions.

Engagement Terms and Liability

The “General Engagement Terms for Wirtschaftsprüfer and Wirtschaftsprüfungsgesellschaften (German Public Auditors and Public Audit Firms)” dated 1 January 2017 are applicable to this engagement and also govern our relations with third parties in the context of this engagement (www.de.ey.com/general-engagement-terms). In addition, please refer to the liability provisions contained there in no. 9 and to the exclusion of liability towards third parties. We assume no responsibility, liability or other obligations towards third parties unless we have concluded a written agreement to the contrary with the respective third party or liability cannot effectively be precluded.

We make express reference to the fact that we do not update the assurance report to reflect events or circumstances arising after it was issued unless required to do so by law. It is the sole responsibility of anyone taking note of the result of our assurance engagement summarized in this assurance report to decide whether and in what way this result is useful or suitable for their purposes and to supplement, verify or update it by means of their own review procedures.

Munich, February 25, 2020

Ernst & Young GmbH
Wirtschaftsprüfungsgesellschaft

Nicole Richter
Wirtschaftsprüferin
[German Public Auditor]

ppa. Rhea Kraft

1.3 Report of the Supervisory Board



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

1.3.1 Dear Shareholders,

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

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

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

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

Consultation and Monitoring

The Supervisory Board duly performed its duties in accordance with statutory requirements, the Articles of Association, the Supervisory Board's Rules of Procedure and the German Corporate Governance Code. It received regular and detailed written and oral reports on the intended business strategy, material issues regarding financial, investment, personnel planning and the progress of business as well as risks and opportunities. Specifically, the Management Board consulted the Supervisory Board on the group's strategy. The Supervisory Board was directly involved in all material decisions. Transactions requiring approval were presented by the Management Board.

Further Information
Corporate Governance Report

Meetings of the Supervisory Board and Its Committees

The plenum of the Supervisory Board held six meetings in fiscal year 2019, the audit committee four, the remuneration committee three and the nomination committee five. In addition, the Supervisory Board passed six circular resolutions. The Supervisory Board and its committees also convened partly without the Management Board as necessary to deliberate on items that pertained to the Management Board or required internal discussion among Supervisory Board members alone. The plenum of the Supervisory Board was informed about the results of meetings of the committees at its subsequent plenary meetings. Anders Holch Povlsen was unable to attend one meeting of the Supervisory Board and abstained from participating and recused himself from voting in two other meetings due to a conflict of interest. He was also prevented from attending one meeting of the nomination committee. The other members of the Supervisory Board attended all meetings of the Supervisory Board and all meetings of their respective committees.

Overview of Plenary and Committee Meetings and Attendance on an Individual Basis in Fiscal Year 2019

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

Plenary Meetings

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

At its ordinary meeting on February 25, 2019, the Supervisory Board dealt with the financial statements, the consolidated financial statements for 2018 and the non-financial report presented by the Management Board. In accordance with the recommendations of the audit committee, the Supervisory Board adopted the financial statements for 2018 and approved the consolidated financial statements for 2018 and the non-financial report 2018. It followed the proposal of the Management Board for the appropriation of profit for fiscal year 2018. In addition, the Supervisory Board adopted a resolution regarding its report for the fiscal year 2018, and dealt with the agenda for the annual general meeting 2019 as well as the funding of the Long Term Incentive (LTI 2018). The Supervisory Board also addressed the results of its 2018 efficiency evaluation, which was carried out by way of a questionnaire focusing on the supply of information to the Supervisory Board, the structure and efficiency of meetings, the setup and procedures of the Supervisory Board's committees, the composition of the Supervisory Board and its succession planning. No noteworthy shortcomings were identified.

At its ordinary meeting on May 22, 2019, the Supervisory Board dealt in particular with the new employee participation program of the company, the activation of equity settlement rights under the LTI 2018, the fulfilment infrastructure of the company and the (re-)election of the members of the Supervisory Board's committees.

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

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

At its ordinary meeting on December 6, 2019, the Supervisory Board dealt primarily with the budget for the fiscal year 2020 and its new Rules of Procedure in compliance with the German Corporate Governance Code 2020¹². The Management Board and the Supervisory Board jointly resolved on the declaration of conformity with the German Corporate Governance Code.

Based on the law and the requirements laid down in the Articles of Association and the Management Board's Rules of Procedure, certain transactions and measures require the prior approval of the Supervisory Board. These transactions were presented to the Supervisory Board for approval. The transactions discussed by the Supervisory Board included inter alia the warehouse equipment for the fulfillment center of Zalando Lounge in Ludwigsfelde, the building of a fulfillment center in the Netherlands and the conclusion of a new cloud vendor contract.

Audit Committee

The audit committee analyzed the annual financial statements for 2018 and the consolidated financial statements for 2018, including the combined management report for 2018 and the non-financial report, as well as the quarterly statement for the first quarter, the half-year report and quarterly statement for the third quarter of 2019. The audit committee regularly reviewed and discussed the focus of the audit, the status reports on GRC (Governance, Risk & Compliance) including data privacy, litigation and the work of the internal audit, the treasury reports and the approval of non-audit services. The audit committee was involved in the preparation of the Supervisory Board's proposal to the annual general meeting 2019 for the appointment of the auditor and group auditor. The chairperson of the audit committee conferred with the auditors on the audit focus.

Remuneration Committee

The remuneration committee continued its work of the previous year on the review of the Management Board's performance and the design of the compensation system for the newly appointed Management Board members. Besides this, the remuneration committee addressed the development of the company's employee incentive programs as well as the executive position planning including compensation framework.

¹²⁾ The German Corporate Governance Code 2020 is expected to enter into force in March 2020.

Nomination Committee

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

Conflicts of Interest

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

Training and Professional Development

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

Audit and Ratification of the Annual Financial Statements and Consolidated Financial Statements

The Management Board forwarded the annual financial statements and the consolidated financial statements for fiscal year 2019, the combined management report and the non-financial report for ZALANDO SE and the group as well as the proposal of the Management Board for the appropriation of profit to the chairperson of the Supervisory Board and the chairperson of the audit committee immediately upon their completion in February 2020 and before they were finally attested. The annual financial statements for 2019 and the consolidated financial statements for 2019, as well as the combined management report for the company and the group were examined by the auditor who rendered an unqualified audit opinion on them. The financial statements and the auditor's reports were sent to the members of the Supervisory Board.

Further Information
Combined Management
Report

In a first step, the audit committee closely examined the financial statements and the proposal for the appropriation of profit in the presence of the auditor. The auditor reported on the most significant matters of the audit. Thereafter and based on the audit committee's recommendation, the Supervisory Board discussed the financial statements, the non-financial report and the proposal for the appropriation of profit in detail.

The Supervisory Board examined the annual financial statements and consolidated financial statements, the combined management report and the non-financial report for ZALANDO SE and the group as well as the proposal of the Management Board for the appropriation of profit. The findings of the preliminary audit conducted by the audit committee and the Supervisory Board's own

Further Information
Consolidated Financial
Statements

findings corroborate the findings of the external auditor. Based on this final review, the Supervisory Board raised no objections to the audit. The Supervisory Board therefore approved and adopted the annual financial statements for 2019 and approved the consolidated financial statements for 2019 and the non-financial report 2019. The Supervisory Board concurred with the proposal of the Management Board for the appropriation of profit (to be carried forward to new account), in consideration in particular of the company's growth trajectory, financial planning, flexibility and strategy.

Corporate Governance

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

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

Further Information
Corporate Governance Report

Personnel Matters

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

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

The Supervisory Board would like to thank the Management Board and all employees of the company for their high level of commitment and the strong achievements in fiscal year 2019.

Berlin, February 25, 2020

Cristina Stenbeck

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

Further Information
Corporate Governance Report

1.4 Corporate Governance Report

Corporate governance, as practised by Zalando, involves responsible management and control of the company geared towards long-term goals. ZALANDO SE's Management Board and Supervisory Board value good corporate governance very highly and align their approach to the recommendations set out in the German Corporate Governance Code. In the following, the Management Board and Supervisory Board submit the corporate governance report together with the statement on corporate governance pursuant to Sections 289f and 315d HGB (German Commercial Code), as the content of the two is closely linked. In accordance with Sections 289f and 315d HGB, the statement on corporate governance forms part of the management report.¹³

1.4.1 Declaration of Conformity

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

The Management Board and the Supervisory Board of ZALANDO SE declare that ZALANDO SE has acted in conformity with the recommendations of the Government Commission German Corporate Governance Code in its version of February 7, 2017, published by the Federal Ministry of Justice and Consumer Protection on April 24, 2017, in the official section of the Federal Gazette (Bundesanzeiger) (hereinafter the "Code")

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

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

(c) since the updated declaration of conformity in October 2019 and will in the future act in conformity with the recommendations of the Code except for the deviations stated and explained below under sec. 1. to 3:

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

¹³⁾ The statements on corporate governance in accordance with Sections 289f and 315d HGB are an unaudited part of the combined management report.

- **2. No. 4.2.1 Sentence 1:** according to the Code's recommendations, the Management Board shall have a chairman or spokesman. Previously, the three long-standing members of the Management Board of ZALANDO SE (the Co-CEOs) have worked together on an equal footing without any member performing the function of chairman or spokesman. Also after the enlargement of the Management Board to five members, the Supervisory Board does not see any reason why it should change this established and successful cooperation on an equal footing.
- **3. No. 4.2.3 Paragraph 2 Sentences 6 and 7:** according to the Code's recommendation, the amount of remuneration shall be subject to a numerical cap, both as regards variable components and in the aggregate, and the variable compensation components shall be related to demanding, relevant comparison parameters.

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

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

- **4. No. 5.1.2 Sentence 2:** according to the Code's recommendation, the Supervisory Board shall take diversity into account when appointing Management Board members. The Supervisory Board acknowledges and appreciates the importance of diversity. With regard to the Management Board's composition, qualification and the specific needs of the company shall be the decisive criterion. The Supervisory Board strives to adequately consider the various fields of core competencies of the business model. So far, the Supervisory Board has not applied a specific diversity concept with respect to the Management Board, as it has been founder-led and lean. Going forward, it will continuously reconsider this decision based on a long-term diversity concept in succession planning and balancing it with the company's specific needs. Besides, the Supervisory Board acknowledges that the Management Board for its part appreciates and promotes the importance of inclusion and diversity in the company overall and in the management of the company in particular. The Management Board aims to further increase the diversity in the management levels below itself, paying attention particularly to a variety of professional experience and expertise and aiming for an appropriate consideration of gender, internationality and background.

1.4.2 Corporate Governance

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

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

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

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

Zalando maintains a group-wide Compliance & Business Ethics Team to monitor, manage, document and report on compliance risks deriving from breaches of the law, group policies and ethical standards in business. Zalando's compliance management system encompasses policy management, a help desk function, whistleblowing management (including internal investigations where required), business partner due diligence, compliance-related trainings, and monitoring of certain types of expenses. In the reporting period, the compliance management system of ZALANDO SE was audited by an external auditing company with regard to anti-corruption and antitrust law, and the auditors confirmed that appropriate measures were implemented as of 15 March 2019, and the compliance management system was effective for the auditing period from March 16, 2019 to September 15, 2019 according to IDW AsS 980.

Further Information
Risk and Opportunity Report

All employees in scope are trained on compliance at Zalando, our Code of Ethics, Code of Conduct and group policies, including anti-corruption related policies, e.g. our Group Policy Benefits, Gifts, Events & Expenses. Mandatory compliance training courses are conducted as face-to-face training courses for leads, and generally as e-learning courses for employees without leadership responsibility. The e-learning courses are mandatory for all employees who have a Zalando email address (except for defined roles with low compliance risks in logistics and stores). Employees at sites outside Berlin receive classroom training instead of e-learning courses to allow facilitate personal contact with the central Compliance & Business Ethics Team.

In the reporting period, 41 compliance basics face-to-face training courses were carried out (2018: 50), among them 7 outside Berlin, and 4,263 employees completed the compliance basics e-learning courses (2018: 5,113), among them 2,164 employees of ZALANDO SE (2018: 2,321). Each mandatory training course is followed by mandatory refresher courses every other year. Employees receive an automatic reminder to fulfill their training obligations. If an employee does not fulfil his or her obligations, the lead will be informed and reminded repeatedly until the training is completed.

GRI 205-2

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

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

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

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

GRI 102-11

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

1.4.3 Management Board and Supervisory Board Procedures

Management Board Procedures

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

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

The collaboration and responsibilities of the Management Board members are determined in the Rules of Procedure set out by the Supervisory Board. Each member of the Management Board has sole responsibility for the area of business allocated to him. Each area of business is managed consistently by aligning it to targets agreed upon by the Management Board.

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

Each member of the Management Board is required to disclose any conflicts of interest to the Supervisory Board immediately. All transactions between the company or group entities on the one

hand and the members of the Management Board as well as their related parties on the other must be conducted at arm's length and material transactions require Supervisory Board approval.

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

Current and Past Mandates of the Management Board

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

Composition of the Management Board

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

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

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

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

Supervisory Board Procedures

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

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

Current and Past Mandates of the Supervisory Board

Name of Supervisory Board member	Profession	Mandates pursuant to Section 125 (1) Sentence 5 AktG
Dominik Asam (member until May 22, 2019)	Chief Financial Officer Infineon Technologies AG (until March 2019)	Mandates in affiliated companies:
	Chief Financial Officer Airbus SE (since April 2019)	<p>Infineon Technologies Austria AG, Austria (member of the Supervisory Board until March 2019)</p> <p>Infineon Technologies Americas Corp., Delaware, USA (member of the Board of Directors until March 2019)</p> <p>Infineon Technologies Asia Pacific Pte., Ltd., Singapore (member of the Board of Directors until March 2019)</p> <p>Infineon Technologies China Co., Ltd., PRC (member of the Board of Directors)</p> <p>Directeur General Financier Airbus SAS</p> <p>Member of Board of Directors Airbus Canada Limited Partnership</p> <p>Airbus Defence and Space GmbH (chairperson of the Supervisory Board)</p>
Kelly Bennet (member since May 22, 2019)	Chief Marketing Officer Netflix, Inc. (until July 2019)	Netflix, Inc. (member of the Board of Directors until July 2019)
	Advisor to Spotify CEO and Microsoft Xbox (since October/ August 2019)	Ancestry Information Operations Unlimited Company (operating under Ancestry.com) (member of the Supervisory Board)
Anthony Brew	Employee of Zalando Ireland Ltd. (Digital Experience)	–
Lothar Lanz (member and chairperson until May 22, 2019)	Member of various supervisory boards	Axel Springer SE, Germany (member of the Supervisory Board until April 2019)
		<p>Home24 SE, Germany (member of the Supervisory Board, chairperson)</p> <p>TAG Immobilien AG, Germany (member of the Supervisory Board, deputy chairperson)</p> <p>Dermapharm Holding SE, Germany (member of the Supervisory Board)</p> <p>Bauwert AG, Germany (member of the Supervisory Board)</p>
Jørgen Madsen Lindemann*	Chief Executive Officer & President of Modern Times Group MTG AB	<p>Modern Times Group MTG AB (member of the Board of Directors)</p> <p>Turtle Entertainment GmbH, Germany (member of the Advisory Board)</p>

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

Current and Past Mandates of the Supervisory Board

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

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

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

The Supervisory Board has adopted Rules of Procedure. They govern the procedures and allocation of duties of the Supervisory Board and its committees. The Supervisory Board convenes at least one meeting per quarter; further meetings are convened as necessary. The Supervisory Board regularly assesses the efficiency of its own activities and those of its committees. For this purpose, the Supervisory Board members complete a questionnaire on the effectiveness of the Supervisory Board's and committees' work at the beginning of each year. The findings of the efficiency assessment are discussed at the first meeting of the year and relevant recommendations and feedback implemented in due course. In addition to the qualitative criteria to be determined by the Supervisory Board, the purpose of the review includes assessing the procedures in the Supervisory Board, as well as the information provided to the Supervisory Board, both in terms of timing and whether the content is adequate. Each member of the Supervisory Board must disclose conflicts of interest to the Supervisory Board, particularly those that might arise as a result of an advisory or committee function at customers, suppliers, creditors, borrowers or other third parties. If a member of the Supervisory Board has a significant, non-temporary conflict of interest, that member of the Supervisory Board should resign from office.

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

Composition of the Supervisory Board

The Supervisory Board of ZALANDO SE has set targets regarding its composition. It strives for a composition that takes account of and safeguards the specific needs of the company so that the Management Board is monitored, supervised, and advised in a competent and professional manner. Each member of the Supervisory Board must have the knowledge, skills and professional experience required for him or her to duly fulfil his or her tasks and responsibilities and must make sure that he or she has sufficient time to perform his or her duties. The competence profile of the Supervisory Board as a whole comprises industry competence (in particular in the fields of fashion, technology and commerce) and finance competence as well as competencies in the areas of strategy, supervision and innovation. The members of the Supervisory Board as a group must be familiar with the sector in which the company operates.

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

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

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

Further, no fewer than four shareholder representatives on the Supervisory Board shall be independent from the company and its Management Board as defined in Recommendation C.7 of the German Corporate Governance Code 2020¹⁴ and no fewer than two shareholder representatives shall be independent from a controlling shareholder, if any, as defined in Recommendation C.9 of the German Corporate Governance Code 2020. Candidates, who are likely to be confronted with an increased level of conflicts of interest, should not be proposed for election by the general meeting. The regular limit of length of membership for members of the Company's Supervisory Board shall be twelve years. The Supervisory Board is convinced that such a composition ensures the independent and efficient consultation and oversight of the Management Board.

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

The composition of the Supervisory Board of ZALANDO SE in fiscal year 2019 met the composition targets it had set itself in all respects. The required expertise is represented in the Supervisory Board, the competence profile has been completed and the targets of the diversity concept are met.

Audit Committee

The audit committee prepares, among other things, the negotiations and resolutions of the Supervisory Board on the audit and ratification of the separate financial statements and the approval of the consolidated financial statements, the proposed resolution of the Management Board on the appropriation of profits, and the proposal of the Supervisory Board to the general meeting on the appointment of the auditor. In addition, the audit committee (i) handles questions regarding accounting, (ii) reviews and discusses the financial reports, (iii) approves the non-audit services by the auditor, (iv) evaluates the quality of the audits, (v) monitors the effectiveness of the internal risk management and control systems and the internal audit system, and (vi) handles questions regarding compliance and the monitoring of the audit. The audit committee also discusses the audit reports with the auditor as well as its findings and provides recommendations in this respect to the Supervisory Board.

Members of the Audit Committee

Dominik Asam (chairperson, until May 22, 2019)

Mariella Röhm-Kottmann (chairperson, since May 22, 2019)

Kelly Bennett (since May 22, 2019)

Lothar Lanz (until May 22, 2019)

Jørgen Madsen Lindemann

Konrad Schäfers

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

¹⁴⁾ The German Corporate Governance Code 2020 is expected to enter into force in March 2020.

Remuneration Committee

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

Members of the Remuneration Committee

Jørgen Madsen Lindemann (chairperson)

Shanna Prevé (until May 22, 2019)

Alexander Samwer

Cristina Stenbeck (since May 22, 2019)

Beate Siert

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

Nomination Committee

The nomination committee is exclusively composed of shareholder representatives. The nomination committee prepares the proposals of the Supervisory Board to the general meeting regarding the election of Supervisory Board members, taking into account the specific targets of the Supervisory Board regarding its composition. On the basis of a target profile (see Composition of the Supervisory Board), the Nomination Committee creates a shortlist of available candidates with whom it conducts structured interviews in which it also determines whether the candidate in question will have sufficient time available to perform his or her duties on the Supervisory Board with due care. The Nomination Committee then recommends a candidate to the Supervisory Board for its approval including an explanation of its recommendation.

Members of the Nomination Committee

Lothar Lanz (chairperson, until May 22, 2019)

Cristina Stenbeck (chairperson, since May 22, 2019)

Jørgen Madsen Lindemann

Anders Holch Povlsen

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

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

Additional information
Corporate Responsibility and
Sustainability

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

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

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

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

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

1.4.5 Takeover Law Disclosures Pursuant to Sections 289a (1), 315a (1) HGB and Explanatory Report¹⁵

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

Composition of Issued Capital

With respect to the composition of the issued capital, please refer to section 3.5 Notes to the Consolidated Financial Statements note 20 Equity.

Restrictions Relating to Voting Rights or the Transfer of Shares

At the end of the reporting year, ZALANDO SE had 4,167,899 treasury shares that do not grant rights in accordance with Section 71b AktG.

Shareholdings That Exceed 10% of the Voting Rights

At the end of fiscal year 2019, Kinnevik AB, Anders Holch Povlsen and Baillie Gifford & Co. each held an indirect shareholding in ZALANDO SE that exceeded the threshold of 10% of voting rights. Information on the amount of the above-mentioned shareholdings in the company can be found in section 1.5 The Zalando Share – 2019 in Review.

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

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

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

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

¹⁵⁾ Takeover law disclosures pursuant to Sections 289a (1), 315a (1) HGB are part of the combined management report and also form part of the corporate governance report with the declaration of conformity.

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

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

The share capital of the company is conditionally increased by up to EUR 9,446,929 by issuing up to 9,446,929 no-par value bearer shares (Conditional Capital 2013). The Conditional Capital 2013 may be used only to fulfill the subscription rights that have been granted to the members of the Management Board of the company in connection with the Stock Option Program 2013 in accordance with the resolution of the general meeting of December 18, 2013, as amended by the company's general meeting of June 3, 2014, and of July 11, 2014. The conditional capital increase will be implemented to the extent only that such subscription rights have been or will be issued in accordance with the Stock Option Program 2013, the holders of the subscription rights exercise their rights and the company does not deliver treasury shares to satisfy the subscription rights. The Supervisory Board is exclusively competent regarding the granting and settlement of subscription rights to the members of the Management Board of the company.

The share capital of the company is conditionally increased by up to EUR 2,738,261 by issuing up to 2,738,261 no-par value bearer shares (Conditional Capital 2014). The Conditional Capital 2014 may be used only to fulfill the subscription rights that have been granted to employees of the company as well as members of the management bodies and employees of companies affiliated with the company in the meaning of Sections 15 et seq. AktG in connection with the Stock Option Program 2014 in accordance with the resolution of the general meeting on June 3, 2014, as amended by the company's general meeting of July 11, 2014. The conditional capital increase will only be implemented to the extent that such subscription rights have been or will be issued in accordance with the Stock Option Program 2014, the holders of the subscription rights exercise their rights and the company does not deliver treasury shares to satisfy the subscription rights.

The share capital is conditionally increased by up to EUR 73,889,248 by issuing up to 73,889,248 no-par value bearer shares (Conditional Capital 2015). The purpose of the conditional capital increase is to grant shares to the holders / creditors of convertible bonds and / or bonds with warrants or a combination of all of these instruments issued until June 1, 2020, by the company or any subordinate group company of the company pursuant to the authorization on which a resolution was passed by the general meeting on June 2, 2015, under agenda item 10 lit. a) and that grant a

conversion or option right to new no-par value bearer shares of the company or provide for a conversion or option obligation or an option entitling the issuer to deliver shares to the extent that they are issued against cash contributions. The new shares are issued in each case at a conversion price or option price to be stipulated pursuant to the authorization resolution specified above. The conditional capital increase is carried out only to the extent to which use is made of conversion or option rights or conversion or option obligations are fulfilled or an option entitling the issuer to deliver shares is exercised and no other forms of fulfillment of delivery are used. The Management Board is authorized, with the consent of the Supervisory Board, to determine the further details of the implementation of conditional capital increases.

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

The share capital of the company is conditionally increased by up to EUR 1,522,269 against contribution in cash and in kind by issuing up to 1,522,269 new no-par value bearer shares with a pro rata share in the share capital of EUR 1.00 to fulfill subscription rights to shares of the company (Conditional Capital 2019). The Conditional Capital 2019 may be used only to fulfill the subscription rights granted to the Management Board of ZALANDO SE in connection with the Long Term Incentive 2018 in accordance with the resolution of the annual general meeting on May 22, 2019 under agenda item 7. The conditional capital increase will be implemented only to the extent that the holders of the granted subscription rights exercise their right to subscribe for shares of ZALANDO SE and the company grants no treasury shares or cash payments to 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 new shares from the Conditional Capital 2013, the Conditional Capital 2014, the Conditional Capital 2015, the Conditional Capital 2016 and the Conditional Capital 2019 participate in the profits from the beginning of the fiscal year in which they are issued; notwithstanding this, the new shares participate in the profits from the beginning of the fiscal year preceding the fiscal year in which such new shares are created if the general meeting has not yet adopted a resolution on the appropriation of the distributable profit of the fiscal year preceding the fiscal year in which such new shares are created.

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

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

The Stock Option Program SOP 2013, the Long Term Incentive LTI 2018 and the Long Term Incentive LTI 2019 allow for option rights held by the Management Board to be supplemented in the case of a change of control. The Supervisory Board and the Management Board are both entitled to request the cancellation of the vested outstanding options in exchange for payment by the company. LTI 2018 and LTI 2019 options not yet vested at the time of a change in control may be replaced at the discretion of the Supervisory Board by an economically equivalent new program.

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

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

1.4.6 Remuneration Report¹⁶

The Remuneration Report describes the principal features of the remuneration system as well as the level of remuneration for the individual members of the Management Board and the Supervisory Board of ZALANDO SE for the fiscal year 2019.

Remuneration of the Members of the Management Board

Remuneration of David Schneider, Robert Gentz and Rubin Ritter

Principles of the Remuneration System

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

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

Non-Performance-Based Remuneration

Fixed Remuneration

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

Fringe Benefits

In addition, the members of the Management Board were entitled to non-cash payments (such as the use of company cars) and other benefits totaling EUR 34,630 in fiscal year 2019 (prior year: EUR 27,180). Other benefits include reimbursement of standard expenses, such as travel expenses, contributions towards health insurance, and monthly gross amounts that correspond to the employer's contributions to the statutory pension and unemployment insurance.

Performance-Based Remuneration (Long-Term Incentives)

Long-Term Incentive 2018 (LTI 2018)

Each Co-CEO was granted 1,750,000 options for the five-year contract term under the LTI 2018. Each option relates to one share in the company and has an exercise price of EUR 47.44. The exercise price was determined on the basis of the current share price as per the date of the execution of their service contracts in August 2018 and then increased by 5%.

¹⁶⁾ This remuneration report is part of the combined management report and also forms a component of the corporate governance report with the declaration of conformity

Vesting Scheme

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

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

Performance Criterion

The performance criterion measures the compound annual growth rate ("CAGR") of Zalando Group's business during the relevant performance period as the most relevant performance parameter under the company's long-term strategy. The percentage of vested options of a beneficiary which can be exercised depends on the extent to which a targeted CAGR of at least 15% has been achieved during the performance period. We believe that this is a challenging criterion as it requires that the company outperform the expected continued strong growth of the European online fashion retail market by a factor of roughly 2. At the time when the remuneration system for the Co-CEOs was established, the online European fashion retail industry was projected to grow at a CAGR of 7%¹⁷ over a five-year period.

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

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

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

Performance Criterion

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

Waiting Period and Performance Period

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

Settlement Value and Cap

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

Claims for Restitution

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

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

LTI 2018

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

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

Stock Option Program 2013 (SOP 2013)

Before the introduction of the LTI 2018, the Co-CEOs participated, among other things, in SOP 2013. The vesting period of SOP 2013 expired in November 2018. The SOP 2013 options were granted to the Co-CEOs in fiscal year 2013. SOP 2013 consists of options that entitle each Co-CEO to acquire 3,272,500 new shares in the company. Each option entitles the beneficiaries to acquire one share. The exercise price is EUR 15.63 per option. The beneficiaries can alternatively request a reduction of the exercise price from EUR 15.63 to EUR 1.00 for all or some of the options already vested. In this case, the number of options is reduced so that it leaves the beneficiary at the time of the request neither better nor worse off economically.

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

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

SOP 2013

	Robert Gentz		David Schneider		Rubin Ritter	
	Number of options	Weighted average exercise price (in EUR)	Number of options	Weighted average exercise price (in EUR)	Number of options	Weighted average exercise price (in EUR)
Outstanding as of Jan 1, 2018	639,540	15.63	639,540	15.63	3,272,500	15.63
Granted during the year	0	–	0	–	0	–
Forfeited during the year	0	–	0	–	0	–
Exercised during the year*	0	–	0	–	200,000	1.00
Outstanding as of Dec 31, 2018	639,540	15.63	639,540	15.63	2,900,771	14.77
Exercisable as of Dec 31, 2018	639,540	15.63	639,540	15.63	2,900,771	14.77
Outstanding as of Jan 1, 2019	639,540	15.63	639,540	15.63	2,900,771	14.77
Granted during the year	0	–	0	–	0	–
Forfeited during the year	0	–	0	–	0	–
Exercised during the year*	0	–	0	–	170,571	1.00
Outstanding as of Dec 31, 2019	639,540	15.63	639,540	15.63	2,730,200	15.63
Exercisable as of Dec 31, 2019	639,540	15.63	639,540	15.63	2,730,200	15.63
Weighted average remaining contractual life of options outstanding (in years)						
As of Dec 31, 2018						
As of Dec 31, 2019						
Weighted average share price (in EUR) for options exercised in						
2018		–		–		45.95
2019		–		–		40.28

*) For 542,300 options, the contractually agreed provision to reduce the exercise price to EUR 1.00 has been used. This has reduced the number of these options to 370,571, of which 200,000 have been exercised at EUR 1.00 in 2018 and 170,571 in 2019.

Stock Option Program 2011 (SOP 2011)

Before the introduction of the LTI 2018, the Co-CEOs participated among others in the Stock Option Program SOP 2011. The options of SOP 2011 were granted to the Co-CEOs in fiscal year 2011. SOP 2011 consists of options that entitle each Co-CEO to acquire 1,028,500 new shares in the company. Each option entitles the beneficiary to acquire one share. The exercise price is EUR 5.65 per option. The options granted to the beneficiaries vested in monthly tranches over a seven-year period and became exercisable upon vesting. The last tranche of SOP 2011 vested in October 2018.

The options can be exercised for an unlimited period but only within defined exercise windows, namely within two weeks following the publication of a quarterly financial report, a half-year report or the annual financial statements. The beneficiaries have no claim to cash payment resulting from SOP 2011.

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

SOP 2011

	Robert Gentz		David Schneider		Rubin Ritter	
	Number of options	Weighted average exercise price (in EUR)	Number of options	Weighted average exercise price (in EUR)	Number of options	Weighted average exercise price (in EUR)
Outstanding as of Jan1, 2018	832,150	5.65	832,150	5.65	187,000	5.65
Granted during the year	0	–	0	–	0	–
Forfeited during the year	0	–	0	–	0	–
Exercised during the year	196,350	5.65	196,350	5.65	112,200	5.65
Outstanding as of Dec 31, 2018	635,800	5.65	635,800	5.65	74,800	5.65
Exercisable as of Dec 31, 2018	635,800	5.65	635,800	5.65	74,800	5.65
Outstanding as of Jan1, 2019	635,800	5.65	635,800	5.65	74,800	5.65
Granted during the year	0	–	0	–	0	–
Forfeited during the year	0	–	0	–	0	–
Exercised during the year	0	–	0	–	0	–
Outstanding as of Dec 31, 2019	635,800	5.65	635,800	5.65	74,800	5.65
Exercisable as of Dec 31, 2019	635,800	5.65	635,800	5.65	74,800	5.65
Weighted average remaining contractual life of options outstanding (in years)						
As of Dec 31, 2018		Unlimited		Unlimited		Unlimited
As of Dec 31, 2019		Unlimited		Unlimited		Unlimited
Weighted average share price (in EUR) for options exercised in						
2018		44.87		44.87		43.22
2019		–		–		–

Other Notes

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

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

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

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

Apart from the service contracts, there are no service or employment contracts between the Co-CEOs or their related parties and the company or their subsidiaries.

Procedure for determining the remuneration system for the Co-CEOs

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

In 2017 and 2018, in the course of the design and introduction of the new remuneration system for the Co-CEO's, the remuneration committee conducted such a review, supported by independent external advisors. In preparing the remuneration system, the Supervisory Board and its remuneration committee considered various relevant perspectives, such as the company's strategic (growth) ambitions, the required leadership capabilities and competencies, the internal pay relativities and the alignment of the incentive structures. It also considered an external benchmarking both within the German market, including similar-sized (M)DAX companies from various industries, and with an international sector specific group, including similar-sized technology-driven companies located in Europe and US, as well as the recommendations of the German Corporate Governance Code.

The Supervisory Board approved the new structure, amounts and terms and submitted the proposed remuneration system for the Co-CEOs to the annual general meeting for approval in May 2018.

The annual general meeting approved the proposed new remuneration system. Besides positive feedback regarding the proposed changes to the remuneration system, some investors also raised concerns about certain aspects of the new system. The Supervisory Board took these criticisms seriously and discussed changes to the system after the annual general meeting, both internally and with the members of the Management Board and agreed on some changes: the maximum cap of the options of the LTI 2018 was lowered by 5% and a larger part of options was subjected to a longer waiting period (43% vs. 20%).

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

Amount of Compensation for 2019

The tables below show the Co-CEOs compensation in accordance with the recommendations of the German Corporate Governance Code as of 7 February 2017 and the requirements of Sections 314 and 315 HGB (German Commercial Code) as specified in the German Accounting Standard 17 (hereinafter "GAS 17").

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

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

Under GAS 17 the pension cost, i.e. the service cost in accordance with IAS 19, must not be included in total compensation as recommended under the Code. The company does not provide any company pension entitlements to the Co-CEOs.

Robert Gentz
Member of the Management Board

IN EUR	Benefits granted (Code)			Benefits received (Code)			Benefits (GAS 17)	
	2019	2019 (min.)	2019 (max.)	2018	2019	2018	2019	2018
Non-performance-based remuneration								
Fixed compensation	65,000	65,000	65,000	188,750	65,000	188,750	65,000	188,750
Fringe benefits	10,825	10,825	10,825	5,956	10,825	5,956	10,825	5,956
Total	75,825	75,825	75,825	194,706	75,825	194,706	75,825	194,706
Performance-based remuneration								
Short-term incentives (non-stock-based)								
One-year variable compensation	–	–	–	–	–	–	–	–
Long-term incentives (stock-based)								
Multi-year variable compensation	–	–	–	–	–	–	–	–
SOP 2011 (2011 – 2018)*	–	–	–	–	–	14,741,958	–	–
SOP 2013 (2013 – 2018)	–	–	–	–	–	–	–	–
LTI 2018 (2018 – 2023)**	–	–	–	19,151,015	–	–	–	19,151,015
Total	–	–	–	19,151,015	–	14,741,958	–	19,151,015
Pension expense	–	–	–	–	–	–	n.a.	n.a.
Total	75,825	75,825	75,825	19,345,721	75,825	14,936,664	75,825	19,345,721

*) The receipt of EUR 14,741,958 relates to the exercise of 392,700 options, 196,350 of which were exercised in 2017, however, the issuance of the shares from authorized capital and thus the receipt by the Management Board member did not take place until fiscal year 2018.

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

David Schneider
Member of the Management Board

IN EUR	Benefits granted (Code)			2018	Benefits received (Code)		Benefits (GAS 17)	
	2019	2019 (min.)	2019 (max.)		2019	2018	2019	2018
Non-performance-based remuneration								
Fixed compensation	65,000	65,000	65,000	188,750	65,000	188,750	65,000	188,750
Fringe benefits	12,177	12,177	12,177	11,532	12,177	11,532	12,177	11,532
Total	77,177	77,177	77,177	200,282	77,177	200,282	77,177	200,282
Performance-based remuneration								
Short-term incentives (non-stock-based)								
One-year variable compensation	–	–	–	–	–	–	–	–
Long-term incentives (stock-based)								
Multi-year variable compensation								
SOP 2011 (2011 – 2018)*	–	–	–	–	–	14,741,958	–	–
SOP 2013 (2013 – 2018)	–	–	–	–	–	–	–	–
LTI 2018 (2018 – 2023)**	–	–	–	19,151,015	–	–	–	19,151,015
Total	–	–	–	19,151,015	–	14,741,958	–	19,151,015
Pension expense	–	–	–	–	–	–	n.a.	n.a.
Total	77,177	77,177	77,177	19,351,297	77,177	14,942,240	77,177	19,351,297

*) The receipt of EUR 14,741,958 relates to the exercise of 392,700 options, 196,350 of which were exercised in 2017, however, the issuance of the shares from authorized capital and thus the receipt by the Management Board member did not take place until fiscal year 2018.

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

Rubin Ritter
Member of the Management Board

IN EUR	Benefits granted (Code)			Benefits received (Code)			Benefits (GAS 17)	
	2019	2019 (min.)	2019 (max.)	2018	2019	2018	2019	2018
Non-performance-based remuneration								
Fixed compensation	65,000	65,000	65,000	188,750	65,000	188,750	65,000	188,750
Fringe benefits	11,628	11,628	11,628	9,692	11,628	9,692	11,628	9,692
Total	76,628	76,628	76,628	198,442	76,628	198,442	76,628	198,442
Performance-based remuneration								
Short-term incentives (non-stock-based)								
One-year variable compensation	–	–	–	–	–	–	–	–
Long-term incentives (stock-based)								
Multi-year variable compensation								
SOP 2011 (2011 – 2018)*	–	–	–	–	–	11,011,028	–	–
SOP 2013 (2013 – 2018)	–	–	–	–	6,700,029	8,990,000	–	–
LTI 2018 (2018 – 2023)**	–	–	–	19,151,015	–	–	–	19,151,015
Total	–	–	–	19,151,015	6,700,029	20,001,028	–	19,151,015
Pension expense	–	–	–	–	–	–	n.a.	n.a.
Total	76,628	76,628	76,628	19,349,457	6,776,657	20,199,470	76,628	19,349,457

*) The receipt of EUR 11,011,028 relates to the exercise of 308,550 options, 196,350 of which were exercised in 2017, however, the issuance of the shares from authorized capital and thus the receipt by the Management Board member did not take place until fiscal year 2018.

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

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

Expenses from Share-Based Payments

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

Remuneration of Jim Freeman

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

Principles of the Remuneration System

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

None of the remuneration components includes any discretionary benefits. The company does not provide any company pension entitlements to Jim Freeman.

Non-Performance-Based Remuneration

The gross annual fixed base salary amounts to EUR 800,000. In addition, Jim Freeman was entitled to non-cash payments (such as the use of company cars) and other benefits totaling EUR 9,525 in fiscal year 2019. Other benefits include reimbursement of standard expenses, such as travel expenses, contributions towards health insurance, and monthly gross amounts that correspond to the employer's contributions to the statutory pension and unemployment insurance.

Performance-Based Remuneration (Long-Term Incentives)

New Long-Term Incentive 2019 (LTI 2019)

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

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

Vesting Scheme

17,125 of the options granted to Jim Freeman vest at the end of each quarter starting end of June 2019 until the end of March 2023. As a rule, in all cases of pre-mature termination of the office as member of the Management Board, options which have not yet vested on the date of such termination will cease to vest and be forfeited without compensation. In certain situations of termination qualifying as 'bad leaver' events, even vested and unexercised options of Jim Freeman will be forfeited without compensation.

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

Waiting Period and Exercise Period

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

Performance Period and Performance Criterion

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

The performance criterion measures the compound annual growth rate ("CAGR") of Zalando group's business during the relevant performance period. The measure for growth of the company's business is the company's consolidated revenue. However, should the share from the company's partner program increase to at least a 14% share in consolidated revenue, adjusted for the grossed-up Partner Program merchandise volume (i.e., not including partner program commission only as in revenue, but treating the Partner Program as wholesale, thus grossed up to show 100% of the Partner Program merchandise volume), then these adjusted consolidated revenues are to be used as the relevant parameter for the growth of the company's business for the full relevant performance period as this number then more adequately reflects the growth of the company's overall business.

The percentage of vested options of Jim Freeman which can be exercised depends on the extent to which a targeted CAGR of at least 15% has been achieved during the performance period. This is a challenging criterion as it requires an outperformance of the expected continued strong growth of the European online fashion retail by a factor of roughly 2. At the time of establishing the remuneration system for Jim Freeman, the online European fashion retail industry was projected to grow at a CAGR of 7%¹⁸ during a five-year period.

100% of the vested options can be exercised if the CAGR equals or exceeds 15%. Otherwise, depending on the extent of the shortfall of the actual CAGR from such target CAGR, the percentage of the relevant vested options which can be exercised decreases. At a CAGR below 11%, the payout is 50%:

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

Performance Criterion

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

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

Settlement Value and Cap

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

Claims for Restitution

Neither the service contract of Jim Freeman, nor LTI 2019 provides for restitution claims of the company regarding variable compensation paid, e.g. clawback clauses, as the LTI 2019 options are only exercisable once they are definitively vested, the waiting period has expired, and the performance criterion was met. Until then, the options are also affected by negative value risks. An additional clawback provision is therefore not required. This does not affect the applicable legal situation regarding any claims for damages on the part of the company against the Management Board members in the event of culpable breaches of duty (such as according to Section 93 (2) AktG (German Stock Corporation Act)).

The number of LTI 2019 options outstanding of Jim Freeman developed as follows in the reporting period:

LTI 2019

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

Other Notes

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

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

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

Apart from the service contract, there are no service or employment contracts between Jim Freeman or his related parties and the company or their subsidiaries.

Remuneration of David Schröder

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

Principles of the Remuneration System

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

None of the remuneration components includes any discretionary benefits. The company does not provide any company pension entitlements to David Schröder.

Non-Performance-Based Remuneration

The gross annual fixed base salary amounts to EUR 500,000. In addition, David Schröder is entitled to non-cash payments (such as the use of company cars) and other benefits totaling EUR 9,101 in fiscal year 2019. Other benefits include reimbursement of standard expenses, such as travel expenses, contributions towards health insurance, and monthly gross amounts that correspond to the employer's contributions to the statutory pension and unemployment insurance.

Performance-Based Remuneration (Long-Term Incentives)

New Long-Term Incentive 2019 (LTI 2019)

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

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

Vesting Scheme

The options granted to David Schröder vest in quarterly tranches over a four-year period. While the Type B options vest on a straight-line basis, Type A options vest from 50,000 options in year 1 to 120,000 options in year 4. As a rule, in all cases of pre-mature termination of the office as member of the Management Board, options which have not yet vested on the date of such termination will cease to vest and be forfeited without compensation. In certain situations of termination qualifying as 'bad leaver' events, even vested and unexercised options of David Schröder will be forfeited without compensation.

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

Waiting Period and Exercise Period

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

Performance Period and Performance Criterion

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

The performance criterion measures the compound annual growth rate ("CAGR") of Zalando's business during the relevant performance period. The measure for growth of the company's business is the company's consolidated revenue. However, should the share from the company's partner program increase to at least a 14% share in consolidated revenue, adjusted for the grossed-up Partner Program merchandise volume (i.e., not including partner program commission only as in revenue, but treating the Partner Program as wholesale, thus grossed up to show 100% of the Partner Program merchandise volume), then these adjusted consolidated revenues are to be used as the relevant parameter for the growth of the company's business for the full relevant performance period as this number then more adequately reflects the growth of the company's overall business.

The percentage of vested options of a beneficiary which can be exercised depends on the extent to which a targeted CAGR of at least 15% has been achieved during the performance period. This is a challenging criterion as it requires an outperformance of the expected continued strong growth of the European online fashion retail by a factor of roughly 2. At the time of establishing the remuneration system for David Schröder, the online European fashion retail industry is projected to grow at a CAGR of 7%¹⁹ during a five-year period.

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

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

Performance Criterion

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

Settlement Value and Cap

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

Claims for Restitution

Neither the service contract of David Schröder, nor the LTI 2019 provides for restitution claims of the company regarding variable compensation paid, e.g. clawback clauses, as the LTI 2019 options are only exercisable once they are definitively vested, the waiting period has expired, and the performance criterion was met. Until then, the options are also affected by negative value risks. An additional clawback provision is therefore not required. This does not affect the applicable legal situation regarding any claims for damages on the part of the company against the Management Board members in the event of culpable breaches of duty (such as according to Section 93 (2) AktG (German Stock Corporation Act)).

The number of options outstanding of LTI 2019 of David Schröder developed as follows in the reporting period:

LTI 2019

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

Other Notes

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

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

Pursuant to the respective provisions of the AktG (German Stock Corporation Act), David Schröder is also covered by insurance policies for directors and officers (D&O insurance) with adequate coverage and deductibles amounting to 10% of the loss, but no more than 150% of the annual fixed

salary. The D&O insurance policies cover financial losses caused by breaches of duty on the part of the members of the Management Board in the performance of their tasks.

Apart from the service contract, there are no service or employment contracts between David Schröder or his related parties and the company or their subsidiaries.

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

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

In 2018, the remuneration committee performed such a review in several meetings in the context of the design and introduction of the new remuneration system for the Co-CEOs Gentz, Ritter and Schneider. In this process, the remuneration committee was supported by independent external advisors. The Supervisory Board and its remuneration committee considered various relevant perspectives, such as the company's strategic (growth) ambitions, the required leadership capabilities and competencies, the internal pay relativities and the alignment of the incentive structures. It also considered an external benchmarking both within the German market and an international sector specific group. After confirming that the research is still relevant for evaluating the remuneration of members of the Management Board, it served as the basis for assessing the remuneration of Jim Freeman and David Schröder at the beginning of 2019. Although there are certain differences between the different compensation packages that reflect the different roles (Co-CEO, CTO and CFO respectively), they share, in principle, the same or similar elements (e.g. compensation components, type of options) and underlying mechanics (e.g. performance hurdle).

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

Amount of Compensation for 2019

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

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

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

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

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

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

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

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

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

*) Relates to the exercise of options under SOP 2014, a program granted to David Schröder before entering the Management Board in April 2019.

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

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

Expenses from Share-Based Payments

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

Remuneration of Supervisory Board Members

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

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

Remuneration of the members of the Supervisory Board for fiscal year 2019 breaks down as follows:

Supervisory Board Remuneration

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

1.5 The Zalando Share – 2019 in Review

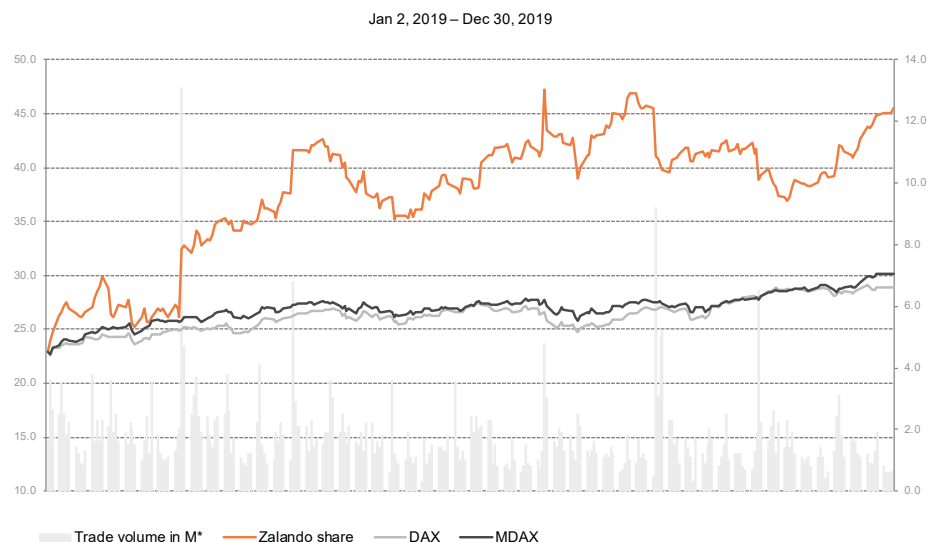
- Zalando recovered in line with positive market backdrop
- Free-float of Zalando shares increased following partial divestment by Kinnevik

1.5.1 Capital Markets and Share Price Development

2019 was a good year for the global capital markets. Following a sell-off in late 2018, markets recovered from their lows over the year, despite intensified US-Sino trade tensions, darkening clouds on the macroeconomic front and uncertainty surrounding Brexit. Central banks around the world acted accordingly to stabilize markets and to shore up the overall economy. These steps combined with early signs of a reacceleration in global growth resulted in a year-end rally on major stock markets. This trend was also reflected on the leading German equity index DAX, which recovered from its trough at the beginning of the year (10,420 points) to near all-time-highs at 13,559 in December 2019.

In this supportive market environment, the Zalando share also rallied from the lows seen in late 2018. At the beginning of 2019, the Zalando share traded at EUR 22.96. While trading sideways in the first two months, the share price jumped by 19% at our Capital Markets Day in February 2019, where we laid out our new 'Starting Point for Fashion' strategy with the Partner Program at the heart and new long-term targets for growth and profitability. The share was able to carry this momentum throughout the next few months, in line with a back to normal fashion market environment, reaching its annual high of EUR 47.23 on August 1, 2019, directly after the publication of our half-year report. In the months that followed, the Zalando share price lost the gains seen after the Q2 2019 results, triggered by a partial divestment of our largest shareholder Kinnevik AB. Since then the Zalando share was range-bound and finished the year at a price of EUR 45.18. As of December 31, 2019, Kinnevik is still our largest shareholder with 65.3m shares, representing 25.8% of our issued share capital.

Development of the Zalando Share, DAX and MDAX



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

Share Performance 2019

Opening price on Jan 2, 2019	EUR 22.96
High 2019 (August 1)	EUR 47.23
Low 2019 (January 2)	EUR 22.96
Closing price on Dec 30, 2019	EUR 45.18
Performance 2019	101.3%
Average daily trading volume 2019 (shares)*	1.8m
Average daily trading volume 2019 (in EUR)*	EUR 65.3m

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

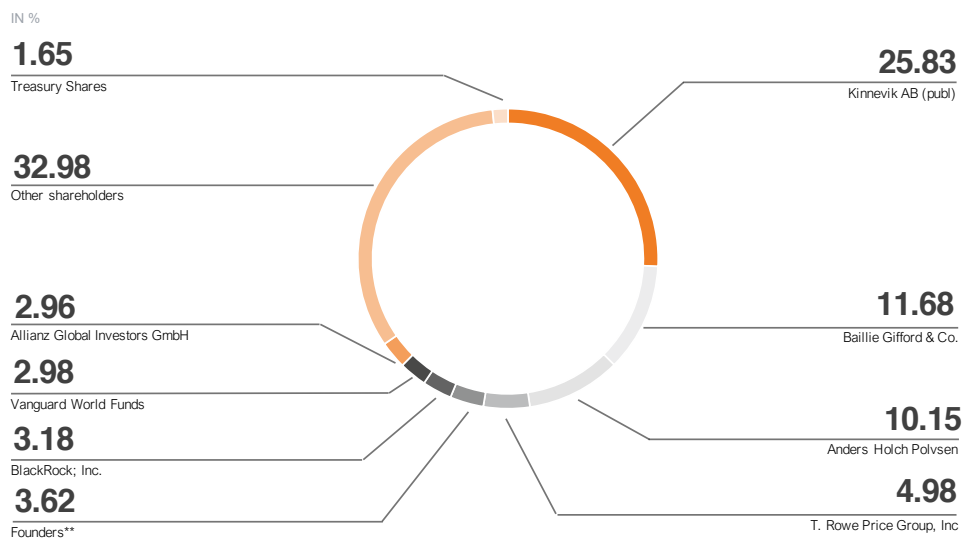
The Zalando Share

Type of shares	Ordinary bearer shares with no par value ("Stückaktien")
Share capital	EUR 252,848,768
Total number of shares outstanding (Dec 31, 2019)	252,848,768
ISIN	DE000ZAL1111
WKN	ZAL111
Bloomberg	ZAL GR
Thomson Reuters	ZALG.F

1.5.2 Shareholder Structure

During 2019, the shareholder structure underwent significant changes. The most important change was the reduction in the holding of Zalando shares by Kinnevik AB from 31.31% to 25.83%. On September 16, 2019, Kinnevik AB announced the placement of 13.13m shares (equivalent to 5.2% of the issued capital) in ZALANDO SE to institutional investors through an accelerated bookbuilding process. Kinnevik's divestment was driven by its desire to increasingly diversify its portfolio. Furthermore, Zerena GmbH also reduced its shareholding in ZALANDO SE from 4.93% to below the reporting threshold of 3% over the course of 2019. On the other hand, we were able to convince investors to either invest or to increase their shareholding in Zalando. Among those are Baillie Gifford and T-Rowe Price. Following those changes in the shareholder structure, the Zalando shares in free-float increased to 62.02%.

Shareholder Structure in Percent as of Dec 31, 2019*



*) Voting rights held directly or by a subsidiary. The overview reflects the notifications pursuant to Section 21 WpHG (BaFin notifications) and Section 26a WpHG (change in total voting rights) received by ZALANDO SE as of December 31, 2019.

**) Aggregate shareholding of the founders.

1.5.3 Research Coverage

By the end of 2019 the Zalando share was covered by 32 research analysts from Germany and abroad (year-end 2018: 34). This ensures a continued high capital market awareness of the Zalando share.

Institutions That Cover Zalando

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

1.5.4 Stock Indices

The Zalando share belongs to various key indices (selection), raising the visibility and trading volume in the Zalando share. With a weighting of 2.7% (2018: 1.6%), Zalando was ranked 10 in the German share index MDAX at the end of 2019. Additional visibility is granted by the listing in the FTSE4Good Index Series, with a score of 4.6 (out of 5) which makes us one of the top 5% pertaining to the apparel retail sector members of the index.

Selection of Stock Indices

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

1.5.5 ESG Ratings

In order to broaden information, measurability and transparency on our ESG performance, Zalando takes part in several ESG ratings. We appreciate feedback and positive recognition from rating agencies. In 2019 we reported to the CDP questionnaire Climate Change and were scored within the ESG ratings of MSCI, Sustainalytics and ISS ESG.

1.5.6 Annual General Meeting

Zalando's annual general meeting was held on May 22, 2019 at BOLLE Festsäle, Berlin. A total of 86.8% of the voting share capital was represented at the main shareholders event. The required majority of shareholders approved all of the resolutions proposed by the company's Management and Supervisory Board. Resolutions included the election of all shareholder representatives of the Supervisory Board. Amongst those were Cristina Stenbeck, current Chairperson of the Supervisory Board.



From left to right:
Rubin Ritter, member of the Management Board, **Robert Gentz**, Co-founder and member of the Management Board, **David Schneider**, Co-founder and member of the Management Board, during the annual general meeting 2019.

1.5.7 Close Dialogue with the Capital Markets

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

Throughout 2019, our Management Board, our Senior Vice President Finance, our Vice President Corporate Finance and the Investor Relations Team expanded their contacts and deepened their relationships with investors at 22 national and international conferences and 50 roadshow days in

major financial cities in Europe, North America, Australia and Asia. Additionally, we attended four retail-investor events over the course of 2019.

On our fifth Capital Markets Day, which was hosted on February 28 at our new headquarters in Berlin, the Management Board and Senior Management presented our new group strategy 'Starting Point for Fashion' to investors and analysts and discussed our new long-term targets for growth and profitability. With more than 140 international participants, the event was very well attended. The event was webcasted and all presentations and audio-webcasts are available on our corporate website.

During 2019 we also organized two warehouse tours for our shareholders and analysts covering the Zalando share. In January interested shareholders were invited to visit the newly opened warehouse in Brunna, close to Stockholm, in Sweden and in September we visited our fulfillment center in Szczecin, Poland.



Capital Markets Day 2019.

Combined Management Report

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02

2.1 Background to the Group

2.1.1 Business Model

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

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

Zalando's assortment of more than 2,500 international brands ranges from popular global brands to fast-fashion and local brands and is complemented by private label products. Zalando's offering is extended and enhanced by Zalando Lounge, which offers registered members special offers at reduced prices. The brick-and-mortar outlet stores in Berlin, Frankfurt, Cologne, Leipzig, Hamburg, Hanover, Münster and Stuttgart opened between 2012 and 2019 serve as an additional sales channel for excess inventory.

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

2.1.2 Group Structure

Governance and Control

The Zalando group is managed by its ultimate parent company, ZALANDO SE, which bundles all management functions and generates the vast majority of group revenues. In addition to the parent company, Zalando is comprised of 48 subsidiaries that operate, inter alia, in the areas of fulfillment, customer service, payments, product presentation, advertising, marketing, and private labels developed in-house. ZALANDO SE has control over all subsidiaries, either indirectly or directly. As a result, group reporting essentially corresponds to the reporting for ZALANDO SE. Supplementary information concerning the separate financial statements is presented in section 2.6.

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

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

Further Information
Corporate Governance Report

Consisting of nine members, the Supervisory Board advises the Management Board and monitors its management activities. The Supervisory Board is directly involved in decisions of fundamental

importance to the company. In particular, it reviews the financial statements and management reports and it reports on the audit to the annual general meeting. Zalando's Supervisory Board represents long-term investors, employees and independent experts.

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

Group Segments

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

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

2.1.3 Corporate Strategy

We are a European online platform for fashion and lifestyle.

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

Our path to deliver on our customer promise is through our partners. Since our founding days, our relationships with partners have been a growth driver for Zalando. Today, these relationships are stronger than ever. We believe we helped many to enter the digital age of retail and subsequently transition into the mobile-first era. We believe that a relationship-oriented approach will make us their online fashion ally. We aim to give our partners more open access to our destinations and more services through which they can drive their own success. We want our partners to focus on

their customers and empower them to serve them even better. To make this possible we grant access to a fashion ecosystem that reaches millions of customers across Europe, we provide business and consumer insights, technology and operations infrastructure, and tailor-made solutions that allow them to convey their brand proposition. And in our attempt to meet our partner's needs we constantly try to understand how we can improve our offer and jointly drive innovation.

Fashion Industry

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

Consumer Trends

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

Partner Trends

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

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

Our Platform Vision and Strategy

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

growth, we will differentiate our destinations and services even more through strategic investments in our customer and brand partner propositions.

Strategic Investment Areas

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

Building Long-Term Customer Relationships

Assortment

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

Convenience

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

Fashion Services and Experiences

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

Building and Scaling Our Platform Ecosystem

Partner Program

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

Zalando Marketing Services

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

Zalando Fulfillment Solutions

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

Offprice

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

Our do.MORE Strategy

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

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

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

Our six targets are divided into three areas:

Take a stand

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

Style with care

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

Shape our future

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

2.1.4 Non-financial report

Additional information regarding our sustainability strategy and our separate combined non-financial report in accordance with Section 289b (1) and (3) and Section 315b (1) and (3) HGB (German Commercial Code) which is published together with the combined management report on the Company's website²⁰ is provided in the separate section 1.2 Corporate Responsibility and Sustainability of the annual report.

²⁰⁾ corporate.zalando.com

2.1.5 Management System

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

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

- **Site visits:** Increasing site visits drive revenue growth through a higher number of orders and higher advertising revenue. Compared to the prior year, the number of site visits increased by 33.2% in 2019.
- **Mobile visit share:** Users are making greater use of mobile devices to access the internet. In our effort to offer customers the opportunity to enjoy high quality shopping on their mobile devices, Zalando continues to develop and refine its mobile websites and apps. As a result, the ratio of site visits from mobile devices to the total number of site visits increased by around 4.3 percentage points in 2019, rising from 79.3% in 2018 to 83.7%.
- **Active customers:** The Zalando group measures its success by the number of active customers. Each customer that has placed at least one order within the last year (based on the reporting date) is considered active. Compared to the prior year, the number of active customers increased by 4.5m rising from 26.4m to 31.0m in 2019.
- **Number of orders:** In addition to revenue, the number of orders placed is a key performance indicator (KPI) for the management of the group. This indicator is monitored independently from the value of merchandise and is a key driver of growth. In 2019, the number of orders placed increased from 116.2m in 2018 to 144.9m.
- **Average orders per active customer:** The average number of orders placed by active customers during the last twelve months totaled 4.7 as of December 31, 2019 (prior year: 4.4). This KPI is an important indicator of the trust customers place in the company and is also influenced by customer age and shopping channel.
- **Average basket size:** Like the number of orders placed, the average basket size has a direct effect on the revenue of the group. The average basket size (after returns) decreased slightly in fiscal year 2019 from EUR 57.1 to EUR 56.6. It is influenced by assortment composition, customer age and shopping channel.

2.1.6 Research and Development

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

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

Research costs were immaterial.

2.2 Report on Economic Position

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

2.2.1 Macroeconomic and Sector-Specific Environment

The consumer inclination seen in previous years towards online shopping continued in 2019. Online fashion in Europe grew by 10.1%²¹ closing with a trading volume of EUR 72.9bn²². This outperformed the fashion sector which posted a growth of 2.4%²³ at a trading volume of around EUR 430.9bn²⁴.

www.euromonitor.com

German online fashion sales increased by roughly 6.7%²⁵ in 2019 to a market size of about EUR 17.4bn²⁶. On the other hand, fashion trading volumes stagnated, reporting an estimated growth rate of 0.6%²⁷.

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

Innovation and technology remain a fundamental driver of online consumption. Europe still has the highest internet penetration rate compared to other regions such as the Americas and Asia²⁸. This fact, coupled with increasing online fashion penetration rates in the region, leads us to believe that online fashion will continue to grow.

The increased availability of smartphones and on-demand internet access is having a positive effect on online fashion consumption. Throughout Europe, consumers are increasingly using smartphones for online shopping. As a result, mobile shopping is projected to grow by 15.6%²⁹ in 2020.

2.2.2 Business Development

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

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

21) Euromonitor, Europe excl. Russia, Germany

22) Ibid

23) Ibid

24) Ibid

25) Ibid

26) Ibid

27) Ibid

28) Statista 2019

29) Euromonitor, Europe excl. Russia

years, Zalando continued to invest significantly in its customer proposition, including assortment, convenience, fashion services and experiences. This has resulted in a steady increase in the average number of orders per customer per year to 4.7 (4.4 in 2018).

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

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

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

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

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

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

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

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

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

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

2.2.3 Economic Situation

Financial Performance of the Group

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

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

Condensed Consolidated Income Statement

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

Further Information
Consolidated Statement of
Comprehensive Income

2.2 REPORT ON ECONOMIC POSITION

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

Key performance indicators*

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

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

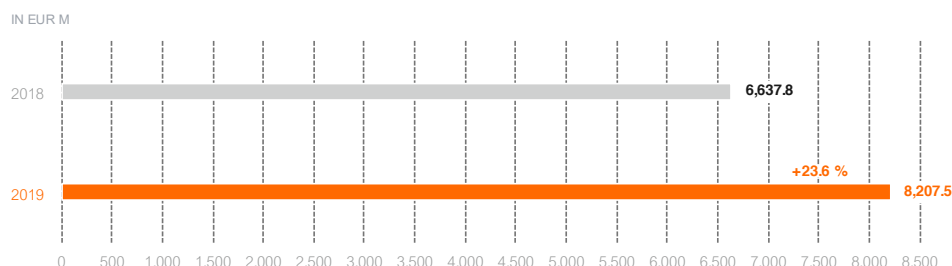
**) The calculation and definition of the average basket size was changed in 2019. It now consists of the GMV divided by the number of orders. In the prior-year period, it was calculated as transactional revenue divided by the numbers of orders. In the table above, the new definition and calculation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

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

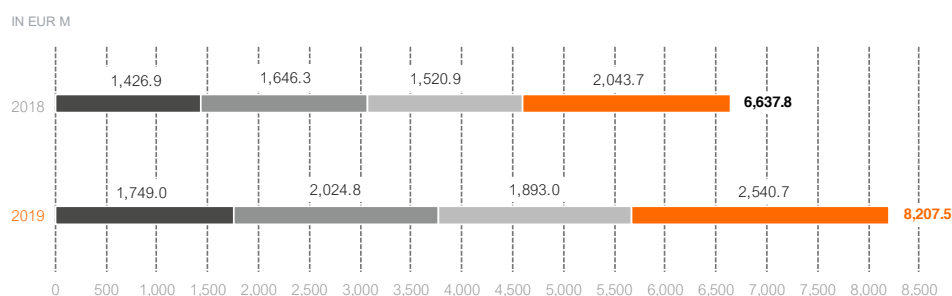
Initial application of IFRS 16 has affected EBIT, EBITDA, related margins and adjusted KPIs as well as the operating cash flow and the free cash flow reported for 2019. Effects are in line with the expectations prescribed in our 2018 annual report.

Development of Revenue and GMV³⁰

Annual GMV Growth (2018 – 2019)



GMV by Quarter (2018 – 2019)



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

As of December 31, 2019, the group had 31.0 million active customers compared to 26.4 million active customers as of December 31, 2018. This corresponds to an increase of 17.1%. The number of orders, which increased by 24.8%, was driven in particular by a generally higher level of customer engagement as evidenced by a 33.2% increase in site visits. Higher website traffic also reflects a significant increase in the share of visitors accessing the website on mobile devices. Compared to the prior year, the share of site visits via mobile devices rose by 4.3 percentage points to 83.7% in 2019.

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

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

³⁰⁾ The statements on the quarterly development of GMV are unaudited.

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

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

The variance in GMV and revenue over the course of the year reflects the seasonality of the business. Typically, the fall and winter collections are sold at higher prices than the spring and summer goods. This means that GMV and revenue levels tend to be higher in the second half of the fiscal year than the first half. In addition, the second and fourth quarters tend to be stronger than the first and third quarters as they do not contain the fashion sale periods that are typical towards season end.

Development of EBIT

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

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

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

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

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

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

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

Adjusted EBIT

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

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

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

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

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

Results by Segment

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

Segment Results of the Group 2019

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

Segment Results of the Group 2018

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

Fashion Store Results by Region 2019

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

Fashion Store Results by Region 2018

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

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

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

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

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

Adjusted EBIT by Segment

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

Share-Based Compensation Expenses per Segment

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

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

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

Cash Flows

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

Condensed Statement of Cash Flows

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

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

The capital employed in net working capital decreased compared to the prior year and thus positively impacted the cash flow. Net working capital, consisting of inventories and trade and other receivables less trade payables and similar liabilities, decreased from EUR -84.3m in the prior year to EUR -147.7m as of December 31, 2019 (also see section 2.2.3, Financial Position for details on net working capital development).

The cash outflow from investing activities mainly results from investments in the logistics infrastructure relating primarily to the fulfillment centers in Verona (Nogarole Rocca), Italy; Olsztynek, Poland; Rotterdam (Bleiswijk), Netherlands, and Lodz (Gluchow), Poland and capital expenditures

on internally developed software and from furniture and fixtures. Capex, being the sum of the payments for investments in fixed and intangible assets excluding payments for acquisitions, amounted to EUR 306.5m (prior year: EUR 278.4m). Cash flow from investing activities also contains payments received for the interest in the proceeds from the sale of developed land owned by third parties of EUR 21.8m. This resulted from the participation in the increase in sales price of the Zalando Campus property in Berlin, Germany. The amount had been recognized in the income statement over several years beginning in 2015. In 2019, an amount of EUR 1.7m was invested in corporate acquisitions (prior year: EUR 7.1m).

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

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

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

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

Zalando's liquidity position – as the sum of cash and cash equivalents plus term deposits with an original term of more than three months but less than twelve months – declined in 2019 by EUR 13.5m to EUR 1,001.5m.

Credit Facility

On December 15, 2016, ZALANDO SE entered into a revolving credit facility for an amount of EUR 500m with a group of banks. This facility can be drawn in various currencies. The revolving credit facility can be utilized for general business purposes (including acquisitions) as well as for guarantees. The facility expires on December 15, 2023. As of December 31, 2019, an amount of EUR 79.6m had been utilized for bank guarantees and letters of credit.

Financial Position

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

Assets

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

Equity and Liabilities

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

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

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

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

Key components of the software used by the group are developed internally. This ensures that the software is aligned with the operating processes and systems in the best possible way. For example, order and fulfillment processes are supported using internally developed software. In fiscal year 2019, additions related to capitalized development costs amounted to EUR 68.5m (prior year: EUR 54.9m), of which EUR 41.6m is contained in prepayments and assets under development (prior year: EUR 28.4m).

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

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

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

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

Current liabilities increased by EUR 493.0m in the reporting period. This increase is mainly attributable to trade payables and similar liabilities, which rose by EUR 409.4m from EUR 1,298.9m last year to EUR 1,708.3m in the reporting period. The increase is largely due to deliveries of merchandise in light of the higher business volume. Moreover, under reverse factoring agreements, suppliers' claims against Zalando totaling EUR 394.5m were transferred to various factors as of December 31, 2019 (December 31, 2018: EUR 374.6m). These items were recognized in the statement of financial position under trade payables and similar liabilities.

Net working capital, consisting of inventories and trade and other receivables less trade payables and similar liabilities, decreased from EUR -84.3m in the prior year to EUR -147.7m as of December 31, 2019. The decrease results mainly from the increase in trade payables and similar liabilities, which reflects the higher business volume and the increased reverse factoring usage.

Overall Assessment

The Management Board views the business development in 2019 as very successful. Zalando focused on growth opportunities, made key strategic investments and remained profitable in the process. The Zalando group increased revenue strongly in fiscal year 2019 and gained additional market share. EBIT increased compared to prior year as a result of efficiency gains in fulfillment and administrative cost while we continued to push forward our investments in customer acquisition and proposition improvements.

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

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

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

2.2.4 Employees

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

Additional information regarding our sustainability strategy is provided in the separate section 1.2, Corporate Responsibility and Sustainability³¹.

2.3 Subsequent Events

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

³¹⁾ The sustainability report is not part of the audited combined management report.

2.4 Risk and Opportunity Report

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

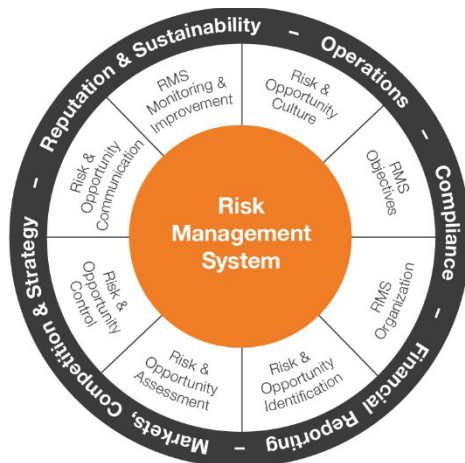
As an international company, Zalando has exposure to macroeconomic, sector-specific, financial and company-specific risks and opportunities. This Risk and Opportunity Report presents the risks and opportunities considered material for Zalando and provides an overview of the implemented risk and opportunity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

2.4.1 Risk and Opportunity Management System

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

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

RMS Elements



RMS Objectives

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

Risk and Opportunity Identification and Monitoring

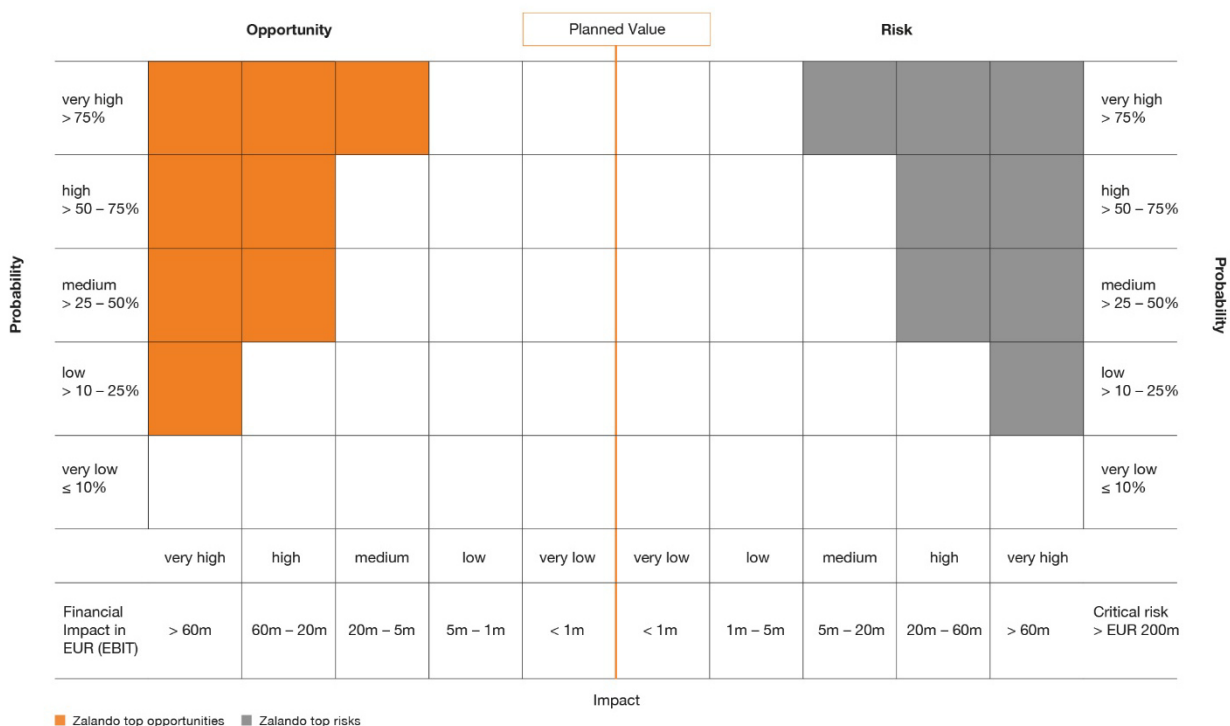
Using multiple instruments, such as workshops and self-assessments, the identification and assessment of risks and opportunities is carried out by both, the risk and opportunity owners during day-to-day operations and the Risk Management Team on a half-yearly basis. Moreover, Zalando has implemented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

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

Risk and Opportunity Assessment

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

Risk and Opportunity Matrix



The probability of occurrence represents the possibility that a specific impact for a risk or an opportunity may materialize within the defined one-year time horizon. The impact assessment is conducted on quantitative or qualitative scales. The quantitative scale refers to the potential financial impact on profit (EBIT) while the qualitative scale considers the impact on Zalando's image. Zalando separately tracks risks that exceed EUR 200m as critical, since they might threaten Zalando as a going concern.

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

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

Risk and Opportunity Control

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

Risk and Opportunity Management Improvements and Reporting

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

System of Internal Controls over Financial Reporting

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

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

2.4.2 Illustration of Material Risks

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

Overview of Material Risks

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

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

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

Increased Costs or Limitation to Growth due to Competition

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

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

Changing Regulatory Requirements

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

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

Supply chain disruptions due to events in supplier countries

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

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

Impact of Climate Change on the Business Cases

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

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

Lack of State-of-the-Art Shops

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

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

Data Protection Requirements

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

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

Cybersecurity Threats

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

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

2.4.3 Illustration of Opportunities

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

Deepening Customer Relationships

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

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

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

Zalando is acknowledging its role in the fashion industry and its responsibility regarding sustainability. Accordingly, we have set ourselves ambitious goals to fulfill our responsibility towards future generations. We are convinced that despite, or precisely because of, our sustainable goals, we will also have economic success. The call for more sustainability in fashion is particularly strong among younger generations who form our future customer base. Nine out of ten GenZ consumers believe companies have a responsibility to address both environmental and social issues.³²

Strong Partnerships

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

Our Partner Program enables brands and retailers to sell their merchandise via the Zalando platform, while maintaining full pricing freedom and control over their brand, the content displayed as well as the products offered. Zalando’s online brand shops are at the heart of this approach, targeted at enabling partners to interact directly with customers and build loyalty for their brand. Ex-

³²⁾ McKinsey: The State of Fashion 2019, p. 45

panding this proposition to our partners, Zalando has moved to offering holistic technology solutions tailored to partners' specific needs including integration services, Zalando Fulfillment Solutions (ZFS) as well as Zalando Marketing Services (ZMS).

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

Markets and Segments

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

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

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

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

2.5

Outlook

- Continued positive outlook for online fashion retail in Europe and Germany.
- Online fashion sales are expected to grow by 9.0%³³ in Europe and 6.4%³⁴ in Germany in 2020.
- Zalando aims to continue to grow significantly faster than the online fashion market, further expanding its market share.
- GMV growth of 20%–25% is forecast for 2020, revenue growth forecast to be in a 15%–20% corridor; adjusted EBIT expected between EUR 225m and EUR 275m.

2.5.1

Future Overall Economic and Industry-Specific Situation

In 2020, European online fashion is expected to once again outpace the overall fashion market. A 9.0%³⁵ increase is forecasted for online fashion compared to the 1.1%³⁶ forecasted for the overall market. The German online fashion market has a similar projected growth of 6.4%³⁷ while the overall fashion market is expected to increase by just 0.6%³⁸ in the upcoming year.

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

2.5.2

Future Development of the Group

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

33) Euromonitor, Europe excl. Russia, Germany

34) ibid

35) ibid

36) ibid

37) ibid Euromonitor, Germany

38) ibid

For the fiscal year 2020³⁹ Zalando expects to grow GMV in its 20% to 25% target corridor, while revenue growth is forecast to be in a 15% to 20% corridor, trailing GMV growth as a result of the ongoing platform transition. We expect the continued strong GMV and revenue growth in 2020 to be primarily driven by an increase in the active customer base as well as an increase in the number of orders per active customer as a result of our ongoing investments in customer acquisition and deepening customer relationships.

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

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

2.5.3 Overall Assessment by the Management Board of ZALANDO SE

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

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

³⁹⁾ These expectations for 2020 are subject to a potential negative impact from supply and/or demand side disruptions caused by the Coronavirus (COVID-19). Parts of our product supply could become delayed or even cancelled, which would temporarily negatively affect our ability to drive and satisfy customer demand. In addition, a spread of the virus across Europe could have temporary negative effects on customer demand. The situation is evolving, we are in close contact with our suppliers as well as logistics partners and we will provide more information during our Q1 earnings call in May.

2.6

Supplementary Management Report to the Separate Financial Statements of ZALANDO SE

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

2.6.1

Business Activity

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

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

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

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

2.6.2

Economic Situation of ZALANDO SE

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

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

2.6 SUPPLEMENTARY MANAGEMENT REPORT TO THE SEPARATE FINANCIAL STATEMENTS OF
ZALANDO SEIncome Statement of ZALANDO SE
According to the German Commercial Code (Short Version)

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

In the reporting period, Zalando increased its revenue by EUR 1,052.5m to EUR 6,391.0m. The 19.7% increase in revenue is the result of a larger customer base and therefore a higher number of orders (24.8%). Zalando continued its positive development in all markets. The considerable rise in these revenue drivers was enabled by our continued focus on investing in the consumer and brand partner proposition as well as in our technology and operations infrastructure.

In the current fiscal year, the DACH countries generated a little less than half of the total revenue. At the same time, revenue recorded in the other European countries climbed significantly, contributing substantially to the overall growth.

Revenue of ZALANDO SE by Geographical Region

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

*) The DACH region is comprised of Germany, Austria and Switzerland.

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

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

2.6 SUPPLEMENTARY MANAGEMENT REPORT TO THE SEPARATE FINANCIAL STATEMENTS OF
ZALANDO SE

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

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

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

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

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

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

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

Current and deferred taxes are presented in the following table.

Income Taxes

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

2.6 SUPPLEMENTARY MANAGEMENT REPORT TO THE SEPARATE FINANCIAL STATEMENTS OF ZALANDO SE

Net Assets and Financial Position

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

Assets

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

Equity and Liabilities

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

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

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

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

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

Regarding the liquidity and the financial development of ZALANDO SE we refer to the financial development of the Zalando group. The financial development of the Zalando group basically reflects the

financial development of ZALANDO SE. Furthermore, ZALANDO SE is responsible for the cash management of the Zalando group.

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

The cash flow from investing activities in fiscal year 2019 was mainly driven by capital increases in subsidiaries that were used to invest in the fulfillment infrastructure, as well as to further expand the respective business segments of the subsidiaries. The cash flow from investing activities also contains investments in loans to affiliated companies. Cash and cash equivalents consist of cash on hand and bank balances as well as fixed-term deposits at financial institutions and in money market funds due within three months.

The equity ratio stood at 42.7% (prior year: 47.7%).

Provisions and liabilities increased by EUR 506.8m to EUR 2,211.6m in line with the expansion of business. As of December 31, 2019, this figure mainly pertains to provisions for product return claims, outstanding invoices for fulfillment and marketing expenses and trade payables.

Under reverse factoring agreements, suppliers' claims against Zalando totaling EUR 394.5m were transferred to various factors as of December 31, 2019 (December 31, 2018: EUR 374.6m). These are recognized in the statement of financial position under trade payables and similar liabilities.

2.6.3 Risks and Opportunities

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

2.6.4 Outlook

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

Berlin, February 25, 2020

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

Consolidated Financial Statements

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03

3.1 CONSOLIDATED STATEMENT OF
COMPREHENSIVE INCOME3.1 Consolidated Statement of
Comprehensive Income

Consolidated Income Statement

IN EUR M	Notes	Jan 1 – Dec 31, 2019	Jan 1 – Dec 31, 2018
Revenue	(1.)	6,482.5	5,387.9
Cost of sales	(2.)	–3,724.3	–3,107.0
Gross profit		2,758.2	2,280.9
Selling and distribution costs	(3.)	–2,295.2	–1,899.2
Administrative expenses	(4.)	–298.9	–268.9
Other operating income	(5.)	18.2	18.7
Other operating expenses	(6.)	–16.6	–12.3
Earnings before interest and taxes (EBIT)		165.8	119.2
Interest and similar income		10.4	5.7
Interest and similar expenses		–29.4	–15.4
Result of investments accounted for using the equity method		–3.9	–3.5
Other financial result		2.0	–0.4
Financial result	(7.)	–20.9	–13.6
Earnings before taxes (EBT)		144.9	105.6
Income taxes	(8.)	–45.2	–54.4
Net income for the period		99.7	51.2
Thereof net income attributable to the shareholders of ZALANDO SE		99.7	51.4
Thereof net income attributable to non-controlling interests		0.0	–0.2
Net income for the period as a percentage of revenue		1.5%	0.9%
Basic earnings per share (in EUR)	(9.)	0.40	0.21
Diluted earnings per share (in EUR)	(9.)	0.39	0.20

Consolidated Statement of Comprehensive Income

IN EUR M	Jan 1 – Dec 31, 2019	Jan 1 – Dec 31, 2018
Net income for the period	99.7	51.2
To be recycled to profit or loss in subsequent periods		
Effective portion of gains / losses from cash flow hedges, net of tax	–10.2	–12.6
Exchange differences on translation of foreign financial statements	–0.5	–1.0
Other comprehensive income	–10.7	–13.6
Total comprehensive income	88.9	37.5
Thereof total comprehensive income attributable to the shareholders of ZALANDO SE	88.9	37.8
Thereof total comprehensive income attributable to non-controlling interests	0.0	–0.2

3.2

Consolidated Statement of Financial Position

Consolidated Statement of Financial Position – Assets

IN EUR M	Notes	Dec 31, 2019	Dec 31, 2018
Non-current assets			
Intangible assets	(11.)	192,8	189,1
Property, plant and equipment	(12.)	708,4	546,4
Right-of-use assets	(13.)	525,6	n.a.
Financial assets	(14.)	10,1	13,7
Deferred tax assets	(8.), (27.)	9,2	2,3
Non-financial assets	(14.)	7,3	3,8
Investments accounted for using the equity method	(15.)	1,6	5,0
		1.455,1	760,2
Current assets			
Inventories	(16.)	1.098,3	819,5
Prepayments		0,1	13,2
Trade and other receivables	(17.)	462,3	395,1
Other financial assets	(18.)	42,8	59,3
Other non-financial assets	(18.)	262,2	191,4
Cash and cash equivalents	(19.)	976,5	995,0
		2.842,2	2.473,5
Assets held for sale	(12.)	35,9	0,0
Total assets		4.333,1	3.233,7

3.2 CONSOLIDATED STATEMENT OF FINANCIAL
POSITION

Consolidated Statement of Financial Position – Equity and Liabilities

IN EUR M	Notes	Dec 31, 2019	Dec 31, 2018
Equity			
Issued capital		248,7	247,9
Capital reserves		1.200,5	1.155,6
Other reserves		–15,6	–4,9
Retained earnings		250,4	150,7
Equity of shareholders of ZALANDO SE		1.683,9	1.549,1
Non-controlling interest		–0,2	–0,1
	(20.)	1.683,8	1.549,1
Non-current liabilities			
Provisions	(22.)	42,5	34,0
Lease liabilities	(13.)	481,4	n.a.
Borrowings	(25.)	2,7	5,6
Other financial liabilities		4,2	2,4
Other non-financial liabilities		1,1	5,5
Deferred tax liabilities	(8.), (27.)	10,7	23,5
		542,6	70,9
Current liabilities			
Provisions	(22.)	3,4	0,1
Lease liabilities	(13.)	68,0	n.a.
Borrowings	(25.)	2,8	2,8
Trade payables and similar liabilities	(23.)	1.708,3	1.298,9
Prepayments received	(23.)	35,0	36,1
Income tax liabilities		7,6	27,7
Other financial liabilities	(24.)	128,2	104,6
Other non-financial liabilities	(24.)	143,4	143,5
		2.096,7	1.613,7
Liabilities associated with assets held for sale	(12.)	10,0	0,0
Total equity and liabilities		4.333,1	3.233,7

3.3

Consolidated Statement of Changes in Equity

Consolidated Statement of Changes in Equity 2019

IN EUR M

	Notes	Issued capital	Capital reserves
As of Jan 1, 2019		247.9	1,155.6
Net income for the period		0.0	0.0
Other comprehensive income		0.0	0.0
Total comprehensive income		0.0	0.0
Capital increase	(20.)	2.2	36.3
Repurchase of treasury shares	(20.)	-1.4	-37.4
Share-based payments	(21.)	0.0	46.0
Equity transactions with changes of interest		0.0	0.0
As of Dec 31, 2019		248.7	1,200.5

Consolidated Statement of Changes in Equity 2018

IN EUR M

	Notes	Issued capital	Capital reserves
As of Jan 1, 2018		247.2	1,182.4
Net income for the period		0.0	0.0
Other comprehensive income		0.0	0.0
Total comprehensive income		0.0	0.0
Capital increase	(20.)	3.3	38.2
Initial application of IFRS 9		0.0	0.0
Repurchase of treasury shares	(20.)	-2.6	-108.3
Share-based payments	(21.)	0.0	43.3
Equity transactions with changes of interest		0.0	0.0
As of Dec 31, 2018		247.9	1,155.6

3.3 CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

Other reserves						
Cash flow hedges	Currency translation	Retained earnings	Shareholders of ZALANDO SE	Non-controlling interest		Total
-5.0	0.1	150.7	1,549.3	-0.2		1,549.1
0.0	0.0	99.7	99.7	0.0		99.7
-10.2	-0.5	0.0	-10.7	0.0		-10.7
-10.2	-0.5	99.7	89.0	0.0		89.0
0.0	0.0	0.0	38.5	0.0		38.5
0.0	0.0	0.0	-38.8	0.0		-38.8
0.0	0.0	0.0	46.0	0.0		46.0
0.0	0.0	0.0	0.0	0.0		0.0
-15.2	-0.4	250.4	1,684.0	-0.2		1,683.8

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

3.4 CONSOLIDATED STATEMENT OF CASH FLOWS

3.4 Consolidated Statement of Cash Flows

Consolidated Statement of Cash Flows

IN EUR M	Notes	Jan 1 – Dec 31, 2019	Jan 1 – Dec 31, 2018
1 Net income for the period		99.7	51.2
2 + Non-cash expenses from share-based payments	(21.)	46.0	43.3
3 + Depreciation of property, plant and equipment, right-of-use assets and amortization of intangible assets	(11.), (12.)	194.8	86.5
4 + Income taxes	(8.)	45.2	54.4
5 - Income taxes paid, less refunds		-96.5	-42.2
6 +/- Increase/decrease in provisions	(22.)	6.1	0.3
7 +/- Other non-cash income/expenses		5.0	4.2
8 +/- Decrease/increase in inventories	(16.)	-278.8	-40.6
9 +/- Decrease/increase in trade and other receivables	(17.)	-67.2	-116.4
10 +/- Increase/decrease in trade payables and similar liabilities	(23.)	403.6	180.6
11 +/- Increase/decrease in other assets/liabilities	(14.), (18.), (24.)	-30.7	-8.5
12 = Cash flow from operating activities	(26.)	327.2	212.8
13 + Proceeds from disposal of non-current assets	(12.)	22.5	58.9
14 - Cash paid for investments in property, plant and equipment	(12.)	-233.7	-226.1
15 - Cash paid for investments in intangible assets	(11.)	-72.8	-52.3
16 - Cash paid for acquisition of shares in associated companies and acquisition of companies and prepayments for such acquisitions	(15.)	-1.7	-7.1
17 +/- Cash received from/paid for investments in term deposits	(18.)	-5.0	20.0
18 +/- Change in restricted cash	(14.)	0.4	-0.4
19 = Cash flow from investing activities	(26.)	-290.3	-207.0
20 + Cash received from capital increases by the shareholders less transaction costs	(20.)	38.5	38.2
21 - Repurchase of treasury shares	(20.)	-38.8	-110.9
22 - Payments for shares in other entities without change in control		-	-0.4
23 - Cash repayments of loans	(20.)	-2.8	-2.8
24 - Cash payments for the principal portion of lease liabilities	(13.)	-54.2	n.a.
25 = Cash flow from financing activities	(26.)	-57.3	-75.9
26 = Net change in cash and cash equivalents from cash-relevant transactions		-20.4	-70.1
27 +/- Change in cash and cash equivalents due to exchange rate movements		1.9	0.3
28 + Cash and cash equivalents at the beginning of the year		995.0	1,064.7
29 = Cash and cash equivalents as of Dec 31		976.5	995.0

3.4 CONSOLIDATED STATEMENT OF CASH FLOWS

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

Cash – Relevant Interests

IN EUR M	Jan 1 – Dec 31, 2019	Jan 1 – Dec 31, 2018
Interest paid	–25.6	–13.7
Interest received	7.2	3.4
Total	–18.4	–10.1

Interest paid in fiscal year 2019 includes cash payments for the interest portion of the lease liabilities of EUR 12.5m classified as cash flow from operating activities (see also sections 3.5.5 and 3.5.7 (13.)).

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

Free Cash Flow

IN EUR M	Jan 1 – Dec 31, 2019	Jan 1 – Dec 31, 2018
Cash flow from operating activities	327.2	212.8
Proceeds from disposal of non-current assets	22.5	58.9
Cash paid for investments in property, plant and equipment	–233.7	–226.1
Cash paid for investments in intangible assets	–72.8	–52.3
Cash paid for acquisitions of shares in associated companies and acquisition of companies and prepayments for such acquisitions	–1.7	–7.1
Free cash flow	41.6	–13.8

3.5 Notes to the Consolidated Financial Statements

3.5.1 Company Information

Company Name, Registered Office

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

Nature of Operating Activities

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

For more information on Zalando’s business model and its nature of operating activities, please refer to section 2.1.1 Business Model of our Combined Management Report.

3.5.2 General Principles

Application of IFRS

The consolidated financial statements of ZALANDO SE for the fiscal year from January 1 to December 31, 2019, were compiled in accordance with the International Financial Reporting Standards (IFRS) as adopted by the EU as of the reporting date. In addition, the provisions of Section 315e (1) HGB (German commercial Code) have been taken into account. The consolidated financial statements give a true and fair view of the group’s financial position, financial performance and cash.

General Information

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

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

3.5.3 New Accounting Standards

Effects of New or Amended IFRS Relevant for Fiscal Year 2019

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

New IFRS relate to the first-time application of IFRS 16 “Leases”. Amendments relate to minor changes to IFRS 3, IFRS 9, IFRS 11, IAS 12, IAS 19, IAS 23 and IAS 28.

In addition, IFRIC 23 “Uncertainty over Income Tax Treatments” has been applied for the first time in fiscal year 2019.

Application of all the new or amended IFRS above has been mandatory since January 1, 2019.

The first-time application of IFRS 16 has had a material impact on Zalando’s financial performance, position and disclosure. The other amended standards and interpretations subject to first-time application in fiscal year 2019 did not have any material impact on Zalando’s financial performance, position or disclosure.

Transition to IFRS 16

IFRS 16 “Leases” sets out the principles for the recognition, measurement, presentation and disclosure of leases and supersedes the former standard and interpretations of IAS 17, IFRIC 4, SIC-15 and SIC-27.

For the lessee, IFRS 16 introduces a single accounting model (in contrast to IAS 17) which primarily affects the statement of financial position. The new model requires the lessee to recognize assets and liabilities from all leases in the statement of financial position except for leases with a lease term of 12 months or less (short-term leases) or leases of low-value assets (option). For these exceptions Zalando has chosen the practical expedient to recognize the lease payments associated with those leases as an expense on a straight-line basis over the lease term.

The transition to IFRS 16 also resulted in changes in the presentation in the consolidated income statement (under IAS 17 lease expenses were presented by function; under IFRS 16, lease expenses are replaced by depreciation on right-of-use assets – which are presented by function – and interest expenses on lease liabilities – which are presented together with other interest expenses) and the consolidated cash flow statement (the majority of lease payments will no longer be included in cash flow from operating activities but rather in cash flow from financing activities).

Zalando adopted IFRS 16 for the accounting period beginning on January 1, 2019. This change in accounting policy is made in accordance with the transitional provisions set out in IFRS 16.C. Zalando applied the modified retrospective approach (i.e. recognized right-of-use assets and lease liabilities at the date of initial application, i.e. January 1, 2019) without adjusting the comparative figures presented. Furthermore, Zalando elected to measure right-of-use assets at an amount equal to the lease liability, adjusted by the amount of accrued lease payments. Accordingly, the adoption of IFRS 16 did not have any impact on retained earnings as of January 1, 2019.

On transition, Zalando elected to account for existing leases with a remaining lease term of 12 months or less at the date of initial application as short-term leases. Zalando also uses the practical expedient not to reassess whether a contract is or contains a lease at the date of initial application for all contracts already assessed in prior periods applying IAS 17 and IFRIC 4. Furthermore, Zalando separates non-lease and lease components.

3.5 NOTES TO THE CONSOLIDATED FINANCIAL
STATEMENTS

At the date of initial application (January 1, 2019), Zalando recognized lease liabilities of EUR 469.4m. The corresponding right-of-use assets were recognized at an amount of EUR 462.2m comprising lease liabilities (EUR 469.4m) less accrued lease payments (EUR 7.2m) previously recognized in other liabilities (current and non-current).

The weighted average incremental borrowing rate applied as of January 1, 2019 was 2.3%. Applying this discount rate on operating lease commitments disclosed under IAS 17 in our 2018 annual report (EUR 533.8m) would have resulted in a present value of EUR 474.9m. The difference to the amount of lease liabilities recognized as of January 1, 2019 (EUR 469.4m) mainly relates to leases with a remaining lease term of less than 12 months which have not been recognized in lease liabilities.

For lessors, IFRS 16 continues to distinguish between finance leases and operating leases for accounting purposes. Hence, this did not lead to any change in accounting policy. Furthermore, Zalando currently acts exclusively as a lessee and not as a lessor (see section 3.5.7 (13.)).

3.5 NOTES TO THE CONSOLIDATED FINANCIAL
STATEMENTS**New or Amended IFRS Not Yet Applied**

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

Standard / Interpretation		Impending change
IFRS 17	Insurance contracts	IFRS 17 contains a consistent model to account for insurance contracts. The standard establishes principles for the recognition, measurement, presentation and disclosures of insurance contracts and eliminates differences in accounting practices. IFRS 17 supersedes the interim standard IFRS 4.
Amendments to IFRS 2, IFRS 3, IFRS 6, IFRS 14, IAS 1, IAS 8, IAS 34, IAS 37, IAS 38, IFRIC 12, IFRIC 19, IFRIC 20, IFRIC 22 and SIC-32	Amendments to References to the Conceptual Framework in IFRS Standards	In 2018, the IASB issued a revised version of its Conceptual Framework for Financial Reporting. Therefore, references in various Standards, Interpretations and IFRS Practice Statements were updated so that they refer to the 2018 Conceptual Framework.
Amendments to IFRS 3	Definition of a Business	Clarifies the minimum requirements for transactions or other events to be considered as a business. Furthermore, guidance on application and illustrative examples were added.
Amendments to IAS 1 and IAS 8	Definition of Material	Clarifies the definition of material, its application in financial statements and enhances and standardizes guidelines regarding the application of material.
Amendments to IFRS 9, IAS 39 and IFRS 7	Interest Rate Benchmark Reform	Contains temporary exceptions from applying specific hedge accounting requirements with regards to the interest rate benchmark reform (e.g. highly probable-criterion of a forecast transaction or economic relationship between hedged item and hedging instrument). For the purpose of hedge accounting an entity should assume, that interest rate benchmarks have not been altered and hedging relationships affected by it can be therefore continued.
Amendments to IAS 1	Classification of Liabilities as Current or Non-current	Clarification that a liability shall not be classified as current, if the entity has the right at the end of the reporting period to defer settlement of the liability for at least twelve months after the reporting date.

3.5 NOTES TO THE CONSOLIDATED FINANCIAL
STATEMENTS

IASB effective date	Endorsed by EU	Anticipated effects
January 1, 2021, early adoption permitted (IASB has proposed a one-year deferral of the effective date to 2022)	No	As Zalando currently has no transactions within the scope of IFRS 17, the application is not expected to have any effect on the consolidated financial statements.
January 1, 2020, early adoption permitted	Yes	Application is not expected to have any material effect on the consolidated financial statements.
January 1, 2020, early adoption permitted	No	Application is not expected to have any material effect on the consolidated financial statements.
January 1, 2020, early adoption permitted	Yes	Application is not expected to have any material effect on the consolidated financial statements.
January 1, 2020, early adoption permitted	Yes	Application has no material effect on the consolidated financial statements. Hedging relationships affected by it can be continued regardless of the interest rate benchmark reform.
January 1, 2022, early adoption permitted	No	Application is not expected to have any material effect on the consolidated financial statements.

3.5.4 Principles of Consolidation

Basis of Consolidation

The number of subsidiaries included in the basis of consolidation increased from 44 (prior year) to 48 on account of entities founded and acquired in fiscal year 2019 (see section 3.5.8 (8) and (9)).

Reporting Date of the Consolidated Financial Statements

The consolidated financial statements cover fiscal year 2019 on the basis of the reporting period from January 1 to December 31, 2019. Apart from abbreviated reporting periods due to the establishment or acquisition of entities, the fiscal year of the consolidated entities also corresponds to the calendar year.

Consolidation Policies

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

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

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

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

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

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

Currency Translation

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

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

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

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

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

Foreign Exchange Rates

	ISO-Code	Closing rate		Annual average rate	
		Dec 31, 2019	Dec 31, 2018	2019	2018
Pound sterling	GBP	0.85080	0.89453	0.87777	0.88471
Chinese yuan ren-minbi	CNY	7.82050	7.87510	7.73549	7.80808
Czech koruna	CZK	25.40800	25.72400	25.67045	25.64700
Danish krone	DKK	7.47150	7.46730	7.46606	7.45317
Hong Kong dollar	HKD	8.74730	8.96750	8.77150	9.25594
Norwegian krone	NOK	9.86380	9.94830	9.85109	9.59749
Polish zloty	PLN	4.25680	4.30140	4.29762	4.26149
Swedish krona	SEK	10.44680	10.25480	10.58908	10.25826
Swiss franc	CHF	1.08540	1.12690	1.11245	1.15496
US dollar	USD	1.12340	1.14500	1.11947	1.18095

3.5.5 Accounting Policies

Intangible Assets

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

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

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

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

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

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

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

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

Property, Plant and Equipment

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

Useful Lives

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

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

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

Impairment of Non-Financial Assets

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

Current Versus Non-Current Classification

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

An asset is classified as current when:

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

All other assets are classified as non-current.

A liability is classified as current if:

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

All other liabilities are classified as non-current.

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

Assets Held for Sale

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

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

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

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

Leases – The Group as Lessee

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

At the commencement date of the lease, the lease payments included in the measurement of the lease liability comprise primarily fixed payments (less any lease incentives received) and variable

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

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

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

Income Taxes

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

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

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

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

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

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

date and are recognized to the extent that it has become probable that future taxable profits will allow the deferred tax asset to be recovered.

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

Inventories

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

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

Financial Instruments

General Information

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

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

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

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

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

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

Financial Assets

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

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

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

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

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

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

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

Impairment of Financial Assets

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

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

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

Financial Liabilities

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

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

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

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

Derivative Financial Instruments and Hedge Accounting

Zalando uses derivative financial instruments such as forward exchange contracts and interest rate swaps exclusively to hedge its risks associated with foreign currency and interest rate fluctuations. Such derivative financial instruments are initially recognized at fair value on the date on which a derivative contract is entered into and are subsequently remeasured at fair value. Derivative financial instruments are reported as financial assets if their fair value is positive. They are presented as financial liabilities in the statement of financial position if their fair value is negative.

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

In general, hedge accounting involves classifying derivative financial instruments either as an instrument to hedge the exposure to changes in the fair value of a hedged item (fair value hedge), an

instrument to hedge forecast transactions (cash flow hedge) or an instrument to hedge a net investment in a foreign operation.

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

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

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

Cash Flow Hedges

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

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

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

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

Fair Value Measurement

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

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

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

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

Provisions

General Information

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

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

Restoration Obligations

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

Share-Based Payments

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

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

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

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

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

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

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

Revenue Recognition

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

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

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

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

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

Expected Returns

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

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

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

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

Government Grants

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

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

3.5.6 Use of Estimates and Assumptions

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

- identification and determination of write-downs of merchandise and receivables; see comments under notes 3.5.7 (16.) and 3.5.7 (17.),
- setting the expected rate of returns, see comments under note 3.5.7 (23.),
- the determination of the fair value of obligations from financial liabilities and share-based payments; see comments under 3.5.7 (21.) as well as note 3.5.8 (1.),
- the determination of the recoverability of deferred tax assets on unused tax losses; see comments under notes 3.5.7 (8.) and 3.5.7 (27.),
- impairment test for goodwill and intangible assets under development; see comments under note 3.5.7 (11.),
- determination of the lease term and corresponding discount rate; see section 3.5.7 (13.) and 3.5.3.

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

3.5 NOTES TO THE CONSOLIDATED FINANCIAL
STATEMENTS3.5.7 Notes to the Consolidated Statement of Comprehensive Income
and Statement of Financial Position

(1.) Revenue

Revenue

IN EUR M	Jan 1 – Dec 31, 2019	Jan 1 – Dec 31, 2018
Revenue from the sale of merchandise	6,155.5	5,206.5
Revenue from other services	327.0	181.4
Total	6,482.5	5,387.9

Revenue increased by 20.3% or EUR 1,094.6m from EUR 5,387.9m to EUR 6,482.5m in 2019. The major drivers of the revenue growth in 2019 are an increase of our active customer base as well as an increase in the number of orders.

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

As of December 31, 2019, the group had 31.0 million active customers compared to 26.4 million active customers as of December 31, 2018. This corresponds to an increase of 17.1%. The number of orders, which increased by 24.8%, was driven in particular by a generally higher level of customer engagement as evidenced by a 33.2% increase in site visits. Higher website traffic also reflects a significant increase in the share of visitors accessing the website on mobile devices. Compared to the prior year, the share of site visits via mobile devices rose by 4.3 percentage points to 83.7% in 2019.

The larger customer base ordered more frequently than in the corresponding prior year period with the average number of orders per active customer rising by 6.4%, triggered by continuous improvements in our customer experience as well as an increasing use of mobile devices. The average basket size decreased slightly in fiscal year 2019 from EUR 57.1 to EUR 56.6. Customers tend to shop more frequently but with a smaller basket size.

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

3.5 NOTES TO THE CONSOLIDATED FINANCIAL
STATEMENTS**(2.) Cost of Sales**

Cost of Sales

IN EUR M	Jan 1 – Dec 31, 2019	Jan 1 – Dec 31, 2018
Non-personnel costs	3,582.7	2,980.4
Personnel costs	141.6	126.6
Total	3,724.3	3,107.0

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

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

The cost of materials in the group totals EUR 3,268.5m (prior year: EUR 2,734.9m).

Zalando generated a gross profit of EUR 2,758.2m in fiscal year 2019 (prior year: EUR 2,280.9m).

(3.) Selling and Distribution Costs

Selling and Distribution Costs

IN EUR M	Jan 1 – Dec 31, 2019	Jan 1 – Dec 31, 2018
Non-personnel costs	1,920.6	1,501.7
Personnel costs	374.6	397.5
Total	2,295.2	1,899.2

In 2019, selling and distribution costs rose from EUR 1,899.2m to EUR 2,295.2m, pertaining to fulfillment costs of EUR 1,773.0m (prior year: EUR 1,501.5m) and marketing costs of EUR 522.2m (prior year: EUR 397.7m). The fulfillment cost ratio as a percentage of revenue decreased by 0.5 percentage points from 27.9% in 2018 to 27.3% in 2019, mainly due to an improved utilization of our European logistics network, continued overall efficiency gains and better order economics. At the same time Zalando continues to build its European logistics network and to invest in the customer and brand proposition.

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

(4.) Administrative Expenses

Administrative Expenses

IN EUR M	Jan 1 – Dec 31, 2019	Jan 1 – Dec 31, 2018
Non-personnel costs	131.8	103.7
Personnel costs	167.1	165.2
Total	298.9	268.9

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

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

(5.) Other Operating Income

Other operating income decreased by EUR 0.5m from EUR 18.7m in 2018 to EUR 18.2m in 2019.

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

(6.) Other Operating Expenses

Other operating expenses of EUR 16.6m (prior year: EUR 12.3m) mainly stem from expenses relating to other periods, damages and disposals of assets (see section 3.5.7 (12.)).

3.5 NOTES TO THE CONSOLIDATED FINANCIAL
STATEMENTS**(7.) Financial Result**

Financial Result

IN EUR M	Jan 1 – Dec 31, 2019	Jan 1 – Dec 31, 2018
Interest and similar income	10.4	5.7
thereof from hedging derivatives	10.7	5.8
thereof from trade and other receivables	0.9	0.4
thereof from other financial instruments	–1.2	–0.5
Interest and similar expenses	–29.4	–15.4
thereof from financial liabilities at amortized cost	–7.4	–8.0
thereof from hedging derivatives	–9.4	–5.1
thereof other interest and similar expenses	–12.9	–2.6
thereof from unwinding the discount on non-current provisions	0.3	0.3
Result of investments accounted for using the equity method	–3.9	–3.5
Other financial result	2.0	–0.4
thereof from hedging transactions	–2.3	–0.1
thereof recycled from OCI due to ineffectiveness	0.2	0.1
thereof from currency effects	6.2	–0.4
Financial result	–20.9	–13.6

Interest income, interest expense and other financial result from hedging transactions increased due to higher hedging volume. The currency effects in other financial result are caused to a large extent by valuation effects in PLN. Other interest and similar expenses include interest on lease liabilities of EUR 12.5m in fiscal year 2019.

(8.) Income Taxes

Income taxes include deferred taxes and current income taxes paid or payable in the respective countries. They comprise trade tax, corporate income tax, solidarity surcharge and the equivalent foreign tax charges. As in the prior year, the statutory corporate income tax rate, including solidarity surcharge, for the 2019 assessment period in Germany was 15.8%. The applicable trade tax rate was also unchanged in comparison to the prior year at 14.7%. This results in an expected tax rate for the group of 30.5% (prior year: 30.5%).

Current and deferred taxes are presented in the following table.

Income Taxes

IN EUR M	Jan 1 – Dec 31, 2019	Jan 1 – Dec 31, 2018
Deferred taxes	15.0	7.3
Current taxes	–60.2	–61.7
Total	–45.2	–54.4

3.5 NOTES TO THE CONSOLIDATED FINANCIAL
STATEMENTS

As of the reporting date, the Zalando group maintains unused corporate income tax losses of EUR 78.0m (prior year: EUR 105.4m) and unused trade tax losses of EUR 42.9m (prior year: EUR 35.2m). As in the prior year, loss carry forwards are mainly attributable to foreign subsidiaries and can be carried forward indefinitely. The amount of these unused tax losses depends on the final assessment by the applicable tax office.

The utilization of unused tax losses for which no deferred tax assets have been recognized in the past affect the tax result totaling EUR 4.6m in the reporting year (prior year: EUR 0.4m).

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

Tax Rate Reconciliation

IN EUR M	Jan 1 – Dec 31, 2019	Jan 1 – Dec 31, 2018
Earnings before taxes	144.9	105.6
Income tax rate for the group	30.5%	30.5%
Expected tax expense (–) / tax income (+)	–44.2	–32.2
Share of taxes for:		
Non-deductible expenses	–9.9	–11.3
Recognition of previously unrecognized unused tax losses	0.7	1.3
Unrecognized tax losses	0.8	–10.1
Entities included using the equity method	–1.2	–1.1
Tax expenses (–) / tax income (+) relating to other periods	3.0	2.2
Tax rate differences	5.8	–3.0
thereof share of subsidiaries with higher tax rates	0.3	0.2
thereof share of subsidiaries with lower tax rates	5.5	–3.2
Other	–0.2	–0.3
Income tax expense according to the consolidated statement of comprehensive income	–45.2	–54.4
Effective tax rate	31.2%	51.5%

3.5 NOTES TO THE CONSOLIDATED FINANCIAL
STATEMENTS**(9.) Earnings per Share**

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

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

Basic Earnings per Share (EPS)

	Jan 1 – Dec 31, 2019	Jan 1 – Dec 31, 2018
Net income for the period attributable to the shareholders of ZALANDO SE (in EUR m)	99.7	51.4
Basic weighted average number of shares (in millions)	247.6	247.3
Total (in EUR)	0.40	0.21

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

Diluted Earnings per Share (EPS)

	Jan 1 – Dec 31, 2019	Jan 1 – Dec 31, 2018
Net income for the period attributable to the shareholders of ZALANDO SE (in EUR m)	99.7	51.4
Basic weighted average number of diluted shares (in millions)	256.3	258.1
Total (in EUR)	0.39	0.20

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

3.5 NOTES TO THE CONSOLIDATED FINANCIAL
STATEMENTS**(10.) Personnel Expenses**

Personnel Expenses

IN EUR M	Jan 1 – Dec 31, 2019	Jan 1 – Dec 31, 2018
Wages and salaries	630.8	636.4
Social security, pensions and other benefit costs	108.4	107.8
thereof pension costs	0.4	0.4
Total	739.2	744.3

The average number of salaried employees in the group was 14,237 in fiscal year 2019 (prior year: 15,526). Contributions to the statutory pension insurance scheme rose by EUR 0.8m to EUR 48.8m (prior year: EUR 48.0m).

(11.) Intangible Assets

Statement of Movements of Intangible Assets 2019

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

3.5 NOTES TO THE CONSOLIDATED FINANCIAL
STATEMENTS

Statement of Movements of Intangible Assets 2018

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

Additions mainly relate to capitalized development costs of EUR 68.5m (prior year: EUR 54.9m), of which EUR 41.6m is contained in prepayments and assets under development (prior year: EUR 28.4m). These mainly concern production costs for internally developed software.

Research costs were recognized directly through profit or loss.

Apart from goodwill (see below), brand names and domain rights of EUR 2.6m (prior year: EUR 4.7m) were assigned an indefinite useful life since there are no legal, regulatory, contractual, competition-related, economic or other factors that would define the useful life.

Amortization of EUR 62.3m was recorded in the reporting period (prior year: EUR 40.0m). Of this amount, EUR 7.1m (prior year: EUR 5.2m) is recognized in cost of sales, EUR 47.8m (prior year: EUR 29.0m) in selling and distribution costs, and EUR 7.4m (prior year: EUR 5.8m) in administrative expenses.

Impairment Test for Goodwill

Zalando recognized goodwill totaling EUR 49.4m as of December 31, 2019. As this amount is not deemed to be material for the group, we only provide the following information about the impairment test for goodwill.

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

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

Zalando calculated the discount rate before taxes using the capital asset pricing model. Consequently, a risk-free rate, a market risk premium and a spread for credit risk based on the respective business-specific peer group were determined. In addition, the calculations include capital structure and the beta factor of the respective peer group as well as the average tax rate of each cash-generating unit. The resulting discount rates before taxes lie in the range of 12.1% to 12.9% (prior year 10.8% to 12.3%).

In fiscal year 2019, Zalando adjusted the impairment test model to ensure consistency when performing the test due to the first-time application of IFRS 16. First, Zalando has included right-of-use assets within the carrying amount of the cash-generating units or groups of cash-generating units subject to the test. Second, Zalando uses the free cash flow increased through the application of IFRS 16, since the lease liabilities are interest-bearing debt. Third, Zalando has adapted the levered-beta within applying the CAPM to determine the costs of capital and adjusted the capital structure when calculating the WACC. As a result, application of IFRS 16 did not have any material impact on the impairment test results.

The annual impairment testing did not result in any goodwill impairment losses. In addition to testing for impairment, it was tested whether possible changes in the key assumptions could reasonably lead to the carrying amount of the units exceeding their respective recoverable amounts. Such a situation did not exist as of December 31, 2019.

3.5 NOTES TO THE CONSOLIDATED FINANCIAL
STATEMENTS**(12.) Property, Plant and Equipment**

Statement of Movements of Property, Plant and Equipment 2019

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

3.5 NOTES TO THE CONSOLIDATED FINANCIAL
STATEMENTS

Statement of Movements of Property, Plant and Equipment 2018

IN EUR M	Plant and machinery	Other equipment, furniture and fixtures	Land and buildings and buildings on third-party land	Prepayments and assets under construction	Total
Historical cost					
As of Jan 1, 2018	213.5	105.8	1.3	116.1	436.7
Additions	78.2	26.8	1.1	138.2	244.3
Disposals	-0.3	-2.8	0.0	0.0	-3.1
Reclassifications	96.8	2.9	0.3	-99.8	0.2
Currency translation differences	-0.3	0.0	0.0	-1.4	-1.7
As of Dec 31, 2018	387.9	132.7	2.7	153.1	676.4
Depreciation					
As of Jan 1, 2018	39.0	46.8	0.4	0.0	86.2
Additions	25.1	21.2	0.2	0.0	46.5
Disposals	-0.1	-2.6	0.0	0.0	-2.7
As of Dec 31, 2018	64.0	65.4	0.6	0.0	130.0
Carrying amounts					
As of Dec 31, 2017	174.5	59.0	0.9	116.1	350.5
As of Dec 31, 2018	323.9	67.3	2.1	153.1	546.4

The additions mainly pertain to the expanding of the fulfillment centers in Verona (Nogarole Rocca), Italy, Lodz (Gluchow) and Olsztyn (Poland) as well as in Rotterdam (Bleiswijk), Netherlands.

The assets held for sale of EUR 35.9m mainly contain undeveloped land in Berlin and assets relating to the disposal group Kickz.com GmbH. The liabilities held for sale of EUR 10.0m disclosed in the consolidated statement of financial position also belong to this disposal group. Major classes of assets and liabilities classified as held for sale are property, plant and equipment, intangible assets and right-of-use assets as well as inventories, trade payables and lease liabilities. Assets held for sale are expected to be sold within the next six months. Closing of the Kickz sale is expected to take place in the first quarter of fiscal year 2020. A loss of EUR 3.9m from the anticipated sale of Kickz has been recognized in other operating expenses (see section 3.5.7 (6.)).

Depreciation of property, plant and equipment totaled EUR 64.5m (prior year: EUR 46.5m). Of this total, an amount of EUR 7.7m (prior year: EUR 4.9m) is recognized in cost of sales, EUR 43.8m (prior year: EUR 30.7m) in selling and distribution costs and EUR 13.0m (prior year: EUR 10.9m) in administrative expenses.

3.5 NOTES TO THE CONSOLIDATED FINANCIAL
STATEMENTS**(13.) Right-of-Use Assets and Lease Liabilities**

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

At the end of the reporting period, right-of-use assets totaled EUR 525.6m. Additions to right-of-use assets amounted to EUR 134.6m and mainly relate to the commencement of the lease contracts of our fulfillment centers located in Olsztynek, Poland and Verona, Italy as well as our new outlets in Münster, Stuttgart and Hanover. During fiscal year, Zalando recognized depreciation in the amount of EUR 68.1m. A breakdown by class of underlying asset is as follows:

Right-of-use Assets

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

Total lease liabilities amount to EUR 549.3m as of December 31, 2019. Maturity of the payments related to the lease liabilities is as follow:

Maturity of Lease Liabilities

IN EUR M	Due in				Carrying amount as of Dec 31, 2019
	Less than 1 year	1 – 5 years	More than 5 years	Total	
Lease liabilities	80.1	280.6	249.8	610.5	549.3

Variable payments relate to rent payments depending on consumer price indexes. As a rule, adjustments will be made, if applicable, once a year. On average, the rent payable is changed at a rate of about 80-90% of the change of the underlying index. In 2019, additional payments for such index-based rent adjustments totaled EUR 0.2m. Expenses in fiscal year 2019 which were not included in the measurement of lease liabilities amount to EUR 0.5m.

Options to extend lease contracts are material from the group's perspective. They vary between three and up to twenty years. Exercising all of these options could lead to an additional cash outflow of EUR 810.7m within about thirty years. Additionally, Zalando has committed to enter into several lease contracts not yet commenced. This includes a new fulfillment center in the Netherlands, three new offices in Berlin and five new outlets in Germany. Commencement will take place between 2020 and 2023. The non-cancellable period will lead to additional payments of EUR 287.0m within the next thirteen years, whereas all options to extend these contracts could lead to a further additional payment of EUR 251.8m within the next thirtythree years.

3.5 NOTES TO THE CONSOLIDATED FINANCIAL
STATEMENTS

Furthermore, Zalando leases office and photo equipment as well as rental cars. Such leases are in general either short-term leases or leases for assets of low value. Corresponding to our accounting policies described in section 3.5.5, Zalando applies for these contracts the practical expedient of IFRS 16.5 and recognizes lease payments on a straight-line basis over the respective lease term in accordance with IFRS 16.6. In fiscal year 2019, expenses relating to short-term leases are EUR 5.6m and expenses for leases of low-value assets amount to EUR 1.2m. There is no material change in the portfolio of short term leases during the fiscal year.

Interest expenses on lease liabilities total EUR 12.5m for fiscal year 2019; they are recognized within the cash flow from operating activities. Cash payments for the principal portion of the lease liabilities total EUR 54.2m; they are presented within the cash flow from financing activities (see section 3.4 and 3.5.7 (26.)).

The total cash outflow for leases in 2019 for the group (including payments for short-term and low-value leases) amounts to EUR 73.5m (2018: EUR 57,2m).

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

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

Non-Current Financial and Non-Financial Assets

IN EUR M	Dec 31, 2019	Dec 31, 2018	Change
Other non-current financial assets	10.1	13.7	-3.6
thereof derivative financial instruments	0.1	0.5	-0.4
thereof restricted cash	2.5	2.5	0.0
thereof other financial instruments	7.6	10.7	-3.1
Other non-current non-financial assets	7.3	3.8	3.6
thereof deferred items	7.3	3.8	3.6

(15.) Investments Accounted for Using the Equity Method

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

Investments Accounted for Using the Equity Method

IN EUR M	Dec 31, 2019	Dec 31, 2018	Change
FashionTrade.com B.V.	0.0	1.7	-1.7
Le New Black SAS	1.6	3.3	-1.7
Total	1.6	5.0	-3.5

The development of the total carrying amount in 2019 is mainly influenced by Zalando's share of those associates' operating losses (EUR 3.9m) partly offset by capital increases. This includes also an impairment loss of EUR 2.7m relating to FashionTrade.com B.V.

(16.) Inventories

Inventories of merchandise, mainly consisting of shoes and textiles, are recognized in an amount of EUR 1,098.3m (prior year: EUR 819.5m). The EUR 278.8m increase in inventories resulted from the increased business volume.

Allowances of EUR 125.1m were recognized on inventories and the right to repossess goods associated with expected returns (prior year: EUR 110.1m). Expenses for allowances recorded on inventories was EUR 179.7m in the reporting year (prior year: EUR 164.2m).

(17.) Trade and Other Receivables

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

On aggregate, the bad debt allowances developed as follows:

Development of Bad Debt Allowances

IN EUR M	Dec 31, 2019	Dec 31, 2018
Accumulated bad debt allowances as of Jan 1	99.0	65.4
Additions to portfolio-based specific bad debt allowance	59.2	51.4
Utilizations	-41.7	-14.0
Reversals	-12.6	-4.3
Exchange rate effects and other changes	-0.8	0.5
Accumulated bad debt allowances as of Dec 31	103.2	99.0

Additions to bad debt allowances totaled EUR 59.2m in the reporting year (prior year: EUR 51.4m). Of the bad debt allowances recognized as of December 31 of the prior year, EUR 12.6m was reversed (prior year: EUR 4.3m) and EUR 41.7m utilized (prior year: EUR 14.0m). Bad debt losses for uncollectible receivables amounted to EUR 50.1m in the fiscal year (prior year: EUR 16.8m).

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

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

3.5 NOTES TO THE CONSOLIDATED FINANCIAL
STATEMENTS**(18.) Other Current Financial Assets and Other Current Non-Financial Assets**

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

Other Current Financial and Non-Financial Assets

IN EUR M	Dec 31, 2019	Dec 31, 2018	Change
Other current financial assets	42.8	59.3	-16.5
thereof term deposits	25.0	20.0	5.0
thereof derivative financial instruments	7.0	7.7	-0.7
thereof creditors with debit balance	9.5	6.8	2.7
thereof other financial instruments	1.2	24.7	-23.5
Other current non-financial assets	262.2	191.4	70.9
thereof VAT receivables	108.4	75.7	32.7
thereof right to repossess goods	104.8	85.2	19.6
thereof deferred items	12.5	8.4	4.1
thereof other financial assets	36.5	22.0	14.5

The claim resulting from the interest in the proceeds from the sale of developed land owned by third parties recognized under other financial instruments in fiscal year 2018 (EUR 21.8m) was fully settled in the first quarter of 2019 and therefore derecognized. The right to repossess goods increased by EUR 19.6m in comparison to the prior year due to the increased business volume (see also section 3.5.7 (16.)). The increase in VAT receivables (2019: EUR 32.7m) resulted from an increased business volume as well as ongoing investments in our new fulfillment centers (see section 3.5.7 (12.)).

(19.) Cash and Cash Equivalents

Zalando's cash and cash equivalents comprise the categories as presented in the following table. The short-term deposits presented have original terms to maturity of up to three months. Zalando decreased investments in money market funds because the interest conditions for money market funds are currently not favorable.

Cash and Cash Equivalents

IN EUR M	Dec 31, 2019	Dec 31, 2018
Money market funds	121.9	430.4
Cash in bank	794.4	504.1
Short-term bank deposits	60.0	60.0
Cash on hand	0.2	0.5
Total	976.5	995.0

(20.) Equity

The parent company issued 252,848,768 ordinary bearer no-par value shares (Stückaktien auf den Inhaber) as of the reporting date (prior year: 250,665,959). Each share represents an imputed share of issued capital of EUR 1.00 and entitles the bearer to one vote at the company's annual general meeting.

During fiscal year 2019, the issued capital of the parent company was increased by a total of EUR 2.2m to EUR 252.8m by making partial use conditional capital 2013 and 2014. The capital contribution for the newly issued shares has been fully paid in.

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

Authorized and Conditional Capital

	Amount in EUR m	Number of no-par value shares	Purpose
Authorized capital 2015	94.7	94,694,847	Cash or non-cash capital increases until June 1, 2020
Conditional capital 2013	9.4	9,446,929	Servicing of subscription rights from SOP 2013
Conditional capital 2014	2.7	2,738,261	Servicing of subscription rights from SOP 2014
Conditional capital 2015	73.9	73,889,248	Issue of convertible bonds and / or bonds with warrants until June 1, 2020
Conditional capital 2016	5.1	5,098,440	Servicing of subscription rights from EIP 2016
Conditional capital LTI 2018	1.5	1,522,269	Servicing of subscription rights from LTI 2018

The capital reserve amounts to EUR 1,200.5m (prior year: EUR 1,155.6m). In the reporting year, contributions were made under the share-based payment plans in accordance with IFRS 2 of EUR 46.0m (prior year: EUR 43.3m). The contributions made for the newly issued shares increased the capital reserve by EUR 36.3m.

In 2019, ZALANDO SE repurchased 1,456,174 treasury shares (prior year: 2,663,836) at an average price of EUR 26.63 (prior year: EUR 41.62), which corresponds to a notional share in share capital of EUR 1,456,174 (prior year: 2,663,836) and thus 0.58% (prior year 1.06%) of share capital.

Total repurchased shares per December 31, 2019, amount to a notional share in share capital of EUR 4,167,899 (prior year: 2,788,824) and thus to 1.65% (prior year: 1.11%) of share capital.

Other reserves include effects from cash flow hedging of EUR -21.9m (prior year: EUR -7.2m) and deferred taxes on the resulting measurement differences of EUR 6.7m (prior year: EUR 2.2m). Due to cash flow hedging in the reporting year, an expense of EUR -12.4m (prior year: income of EUR 13.1m) was recycled from other reserves to revenue, and EUR 0.2m were reclassified from other reserves to inventories according to IFRS 9 (prior year: EUR 0.1m). Moreover, expenses of EUR 0.1m (prior year: EUR 0.1m) from interest rate hedging were recycled to the financial result in the reporting year.

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

A non-controlling interest arose from the acquisition and first-time full consolidation of Anatwine Ltd. in 2017. Minority shareholders hold 1.5% (prior year: 1.5%) of the Anatwine shares as of December 31, 2019; the non-controlling interest amounted to EUR -0.2m (prior year: EUR -0.1m).

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

(21.) Share-Based Payments

As of the reporting date, Zalando has various share-based payment awards in place for which expenses amounting to EUR 46.0m (prior year: EUR 43.3m) have been recognized. Of these expenses, an amount of EUR 46.0m (prior year: EUR 43.3m) relates to equity-settled share-based awards and EUR 0.0m (prior year: EUR 0.1m) to cash-settled share-based payment awards. The awards material to our consolidated financial statements are described in detail below. All these awards are equity-settled plans granted to employees and executives.

Description of the Programs

Management Board Programs

SOP 2011 and SOP 2013

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

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

The options of SOP 2013 were granted to the members of the Management Board in fiscal year 2013. SOP 2013 consists of options that entitle each member of the Management Board to acquire 3,272,500 new shares in the company. Each option entitles the beneficiaries to acquire one share. The exercise price is EUR 15.63 per option. The beneficiaries can alternatively request a reduction of the exercise price from EUR 15.63 to EUR 1.00 for all or some of the options already vested. In this case, the number of options is reduced so that it leaves the beneficiary at the time of the request neither better nor worse off economically. The options granted to the beneficiaries vested in monthly tranches over a five-year period. The last tranche of SOP 2013 vested in November 2018. The exercise of the options requires the expiry of a four-year waiting period and the achievement of the performance criterion which was determined in a compound annual revenue growth rate during the four-year waiting period. The waiting period ended in December 2017 and the performance criterion was achieved at the end of this period. The options can only be exercised in defined exercise windows, namely within three weeks of the publication of a quarterly financial report, a half-year report or the annual financial statements, and within five years of the expiration of the waiting period.

LTI 2018

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

LTI 2019

With effect as of April 2019 Zalando expanded its Management Board by two new members, namely David Schröder and James Freeman. Each new member of the Management Board was granted options under a new long-term incentive plan called LTI 2019. In total 400,000 Type A, 110,000 Type B and 274,000 Type C options were granted. Each option relates to one share in the company and has an exercise price of EUR 29.84 (Type A options) or EUR 1 (Type B and C options). The options vest in quarterly tranches over a four-year period. The options can only be exercised after the expiry of waiting periods of 1, 2, 3 or 4 years, commencing on the effective date April 1, 2019. The number of options that are assigned to a certain waiting period range between 15 - 29% of the total number of options granted. The performance period relevant for the achievement of the performance criterion equals the waiting period for the respective options. The percentage of vested options of a beneficiary which can be exercised depends on the extent to which a

targeted compound annual growth rate (CAGR) of at least 15% has been achieved during the performance period. For Type A and B Options, 100% of the vested options can be exercised if the CAGR equals or exceeds 15% during the relevant performance period. Otherwise, depending on the extent of the shortfall of the actual CAGR from such target CAGR, the percentage of the relevant vested options which can be exercised decreases. At a CAGR below 10%, payout is zero. In addition, the number of exercisable Type A and B options of a certain performance period is limited to a number that would together with the already exercisable options of previous performance periods add up to a total number of exercisable options that would have become exercisable if the performance criterion were applied to the total number of vested options at the relevant point in time. However, this adjustment of the number of exercisable options cannot lead to the number of exercisable options for a certain performance period below zero. For Type C options, 100% of the vested options can be exercised if the CAGR equals or exceeds 15%. Otherwise, depending on the extent of the shortfall of the actual CAGR from such target CAGR, the percentage of the relevant vested options which can be exercised decreases. At a CAGR below 11%, payout is 50%. Non-performing options (i.e. options that could not be exercised due to a shortfall in CAGR) with a four-year waiting period are forfeited without compensation.

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

Management Programs

SOP 2014

SOP 2014 entitles senior members of the Management Team as well as selected key employees to subscribe to a total of 6,732,000 shares in ZALANDO SE. The options vest provided that the recipient has worked for the company for the period specified within a tranche. Vested options can only be exercised if the performance conditions contained in the SOP 2014 have been fulfilled and the waiting period has elapsed. The exercise price is EUR 17.72, EUR 22.79, EUR 25.03, EUR 29.92, EUR 30.48 and EUR 31.60 per option based on the respective grant date of the options. Each option entitles the recipient to acquire one share. The options vest in 16 tranches over a period of four years. The performance condition stipulates that Zalando must achieve a certain level of revenue growth over a period of four years, starting on the grant date. If the contractual revenue target is not achieved, the options are forfeited without compensation. The four-year waiting period commences on the grant date. The recipients can exercise vested options after the waiting period over a period of five years. Within the five-year exercise period, options can be exercised within three weeks of the publication of each of the quarterly, half-year and annual financial statements. The recipients have no claim to cash payment.

VSOP 2017

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

VSOP 2018

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

EIP

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

ZOP

The ZOP (Zalando Ownership Plan) was introduced in July 2019 to replace the EIP going forward. Under the ZOP, at the end of each quarter of employment, the participants are granted fully vested equity in the form of stock options as a reward for such quarter, which can be exercised after a waiting period of two years commencing on the grant date. The annual target equity amount of each participant is divided into quarterly tranches and each tranche gets converted into a specific number of performance shares (options with a strike of EUR 1.00) and performance options (options with strike price equal to the volume-weighted average closing price of the Zalando stock on the last 30 trading days prior the grant date (grant share price)). The participants can choose how to split the quarterly tranches into Performance Shares and Performance Options. The conversion into stock options is based on different conversion factors for Performance Shares (1.1) and Performance Options (0.3). The conversion equation is as follows:

$$\text{Quarterly target equity amount} / (\text{grant share price} * \text{conversion factor}).$$

At the end of the two-year waiting period of the respective tranche, beneficiaries can exercise their stock options at any time over a period of three years except during blackout periods.

Other Programs

Zalando has entitled all employees to subscribe to the Share Invest program and, unless they participate in the EIP, also to the Share Bonus program. Furthermore, Zalando has implemented a company-wide Top Performance Options Plan.

Share Invest

The yearly Share Invest program is designed as a self-financed acquisition of shares by the participants (investment shares) with a subsequent issue of matching shares by the company. Following a one-year acquisition period and a two-year waiting period, the company grants each program participant matching shares equivalent to 50% of the investment shares acquired during the acquisition period, provided the participant is still employed at Zalando and still holds the relevant investment shares at the time of matching.

Share Bonus

The yearly Share Bonus program gives all participants the opportunity to receive a certain number of free shares. There is a lock-up period of one year attached to the bonus shares commencing on the grant date.

Top Performance Options Plan

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

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Development of Outstanding Options

	SOP 2011		SOP 2013		SOP 2014		EIP	
	Number	Weighted average exercise price (in EUR)	Number	Weighted average exercise price (in EUR)	Number	Weighted average exercise price (in EUR)	Number	Weighted average exercise price (in EUR)
Outstanding as of Jan 1, 2018	1,851,300	5.65	9,817,500	15.63	6,296,912	19.58	1,932,060	31.68
Granted during the year	0	–	0	–	0	–	1,636,185	41.21
Forfeited during the year	0	–	0	–	195,851	26.38	97,455	35.38
Exercised during the year	504,900	5.65	200,000	1.00 ^{*)}	1,981,502	17.72	0	–
Oustanding as of Dec 31, 2018	1,346,400	5.65	9,445,771	15.37	4,119,559	20.15	3,470,790	36.07
Exercisable as of Dec 31, 2018	1,346,400	5.65	9,445,771	15.37	2,620,820	17.72	0	–
Outstanding as of Jan 1, 2019	1,346,400	5.65	9,445,771	15.37	4,119,559	20.15	3,470,790	36.07
Granted during the year	0	–	0	–	0	–	314,757	29.09
Forfeited during the year	0	–	0	–	0	–	156,798	40.18
Exercised during the year	0	–	170,571	1.00 ^{*)}	2,004,805	19.01	0	–
Oustanding as of Dec 31, 2019	1,346,400	5.65	9,275,200	15.63	2,114,754	21.23	3,628,749	35.31
Exercisable as of Dec 31, 2019	1,346,400	5.65	9,275,200	15.63	1,743,132	21.23	0	–
Weighted average remaining contractual life of outstanding options (in years)								
As of Dec 31, 2018	unlimited		4.0		4.8		6.7	
As of Dec 31, 2019	unlimited		3.0		4.0		5.7	
Weighted average share price for options exercised (in EUR)								
2018	44.50		45.95		43.35			
2019	–		40.28		40.58			

^{*)} For 542,300 options the contractually agreed provision to reduce the exercise price to EUR 1.00 has been used in 2018. This has reduced the number of options to 370,571, of which 200,000 have been exercised at EUR 1.00 in 2018 and 170,571 in 2019.

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VSOP 2017		VSOP 2018		LTI 2018		LTI 2019		ZOP	
Number	Weighted average exercise price (in EUR)	Number	Weighted average exercise price (in EUR)	Number	Weighted average exercise price (in EUR)	Number	Weighted average exercise price (in EUR)	Number	Weighted average exercise price (in EUR)
870,000	42.24	0	–	0	–				
0	–	750,000	39.02	5,250,000	47.44				
0	–	0	–	0	–				
0	–	0	–	0	–				
870,000	42.24	750,000	39.02	5,250,000	47.44				
0	–	0	–	0	–				
870,000	42.24	750,000	39.02	5,250,000	47.44	0	–	0	–
0	–	0	–	0	–	784,000	15.71	353,565	14.84
120,834	42.24	250,000	57.38	0	–	0	–	0	–
0	–	0	–	0	–	0	–	0	–
749,166	42.24	500,000	29.84	5,250,000	47.44	784,000	15.71	353,565	14.84
0	–	0	–	0	–	0	–	0	–
3.5		4.8		7.8		–		–	
2.5		3.8		6.8		6.3		3.8	

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Valuation of Newly Granted Options

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

Valuation Parameters

Valuation parameters 2019	EIP	VSOP 2018	LTI 2018	LTI 2019	ZOP
Option pricing model	Black-Scholes			Binomial	Binomial
Weighted average share price (in EUR)	22.4			26.2	43.5
Weighted average exercise price (in EUR)	29.1			24.1	14.8
Expected volatility (%)	34.7			35.0	37.0
Expected dividends (%)	0.0			0.0	0.0
Expected life of option (years)	4.2				
Risk-free interest rate for equivalent maturities (%)	-0.4			-0.2	-0.6
Probability of reaching the performance target (%)	90.5			89.2	0.0
Weighted average fair value of option (in EUR)	17.9			16.3	32.8

Valuation Parameters

Valuation parameters 2018	EIP	VSOP 2018	LTI 2018	LTI 2019	ZOP
Option pricing model	Black-Scholes	Binomial	Binomial		
Weighted average share price (in EUR)	47.3	44.3	45.2		
Weighted average exercise price (in EUR)	41.2	39.0	47.4		
Expected volatility (%)	32.1	34.0	33.0		
Expected dividends (%)	0.0	0.0	0.0		
Expected life of option (years)	4.1				
Risk-free interest rate for equivalent maturities (%)	-0.4	0.0	-0.3		
Probability of reaching the performance target (%)	92.1	94.7	74.0		
Weighted average fair value of option (in EUR)	15.4	15.8	10.9		

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

(22.) Provisions

Provisions developed as follows in the reporting year:

Development of Provisions

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

Provisions developed as follows in the previous year:

Development of Provisions

IN EUR M	Jan 1, 2018	Usage	Addition	Release	Interest expense	Dec 31, 2018
Restoration obligations	14.9	0.0	17.9	0.5	0.3	33.1
Other provisions	1.2	0.5	0.3	0.0	0.0	1.0
Total	16.1	0.5	18.2	0.5	0.3	34.1

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

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

Maturity of Provisions

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

The following table shows the maturities of the provisions at the end of fiscal year 2018:

Maturity of Provisions

IN EUR M	Due in			Total
	Less than 1 year	1 – 5 years	More than 5 years	
Restoration obligations	0.0	2.9	30.2	33.1
Other provisions	0.1	0.6	0.3	1.0
Total	0.1	3.5	30.5	34.1

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

Trade payables and similar liabilities rose by EUR 409.3m to EUR 1,708.3m. The increase is largely due to deliveries of merchandise in light of the higher business volume.

Under reverse factoring agreements, suppliers' claims against Zalando totaling EUR 394.5m were transferred to various factors as of December 31, 2019 (December 31, 2018: EUR 374.6m). These are recognized in the statement of financial position under trade payables and similar liabilities.

Trade payables contain liabilities denominated in foreign currency equivalent to EUR 46.5m as of the reporting date (prior year: EUR 42.5m).

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

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

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

Other Current Financial and Non-Financial Liabilities

IN EUR M	Dec 31, 2019	Dec 31, 2018	Change
Other current financial liabilities	128.2	104.6	23.6
thereof obligations to reimburse customers for returns	79.2	67.7	11.5
thereof debtors with credit balances	12.9	9.7	3.3
thereof others	36.0	27.2	8.8
Other current non-financial liabilities	143.4	143.5	-0.1
thereof VAT liabilities	82.6	73.9	8.6
thereof liabilities from gift vouchers	30.7	27.7	3.0
thereof liabilities from wage and salary	28.7	29.4	-0.6
thereof others	1.4	12.5	-11.0

The increases in VAT liabilities and liabilities from gift vouchers are largely due to the higher business volume. Liabilities from the sale of gift vouchers are recognized at the value of the anticipated utilization. The slight changes in liabilities from wage and salary are effects of the decrease in the number of employees (see section 3.5.8 (6.)).

(25.) Borrowings

Borrowings are due to banks and relate to the financing of fulfillment centers. For more information, please refer to section 3.5.8 (1.).

(26.) Notes to the Statement of Cash Flows

In fiscal year 2019, Zalando generated a positive cash flow from operating activities of EUR 327.2m (prior year: EUR 212.8m). Further to an improvement in pre-tax income (which increased from EUR 105.6m in the prior year to EUR 144.9m in the reporting year), cash flow from operating activities increased due to a higher cash inflow from working capital and higher non-cash expenses such as depreciation and amortization and expenses from share-based payments.

This was partly offset by the increase in income tax payments. The cash flow from operating activities includes the effect from the partial reclassification of lease payments. According to the new accounting standard on lease (IFRS 16), cash payments for contracts are included in the cash flow from financing activities with the amount used for the repayment of the principal portion of lease liabilities (EUR 54.2m) and in the cash flow from operating activities with the interest portion on lease liabilities (EUR 12.5m). In prior year periods, lease payments were entirely included in the cash flow from operating activities.

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The capital employed in net working capital decreased compared to the prior year and thus positively impacted the cash flow. Net working capital, consisting of inventories and trade and other receivables less trade payables and similar liabilities, decreased from EUR -84.3m in the prior year to EUR -147.7m as of December 31, 2019.

The cash outflow from investing activities mainly results from investments in the logistics infrastructure relating primarily to the fulfillment centers in Verona (Nogarole Rocca), Italy, Olsztynek, Poland, Rotterdam (Bleiswijk), Netherlands, and Lodz (Gluchow), Poland and capital expenditures on internally developed software and also from furniture and fixtures. Capex, being the sum of the payments for investments in fixed and intangible assets excluding payments for acquisitions, amounted to EUR 306.5m (prior year: EUR 278.4m). Cash flow from investing activities also contains payments received for the interest in the proceeds from the sale of developed land owned by third parties of EUR 21.8m. This resulted from the participation in the sales price of the Zalando Campus property. The amount had been recognized in the income statement over several years beginning in 2015. In 2019, an amount of EUR 1.7m was invested in corporate acquisitions (prior year: 7.1m).

Cash flow from investing activities further consists of cash invested in term deposits which have an original term of more than three months and are therefore presented in cash flow from investing activities. As of December 31, 2019, an amount of EUR 25.0m was invested in such term deposits.

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

Reconciliation of Liabilities Arising from Financing Activities

IN EUR M	Carrying amount as of Dec 31, 2018	Cash flows	Non-cash flow changes	Carrying amount as of Dec 31, 2019
Non-current borrowings	5.6	0.0	-2.8	2.7
Current borrowings	2.8	-2.8	2.8	2.8

IN EUR M	Carrying amount as of Dec 31, 2017	Cash flows	Non-cash flow changes	Carrying amount as of Dec 31, 2018
Non-current borrowings	8.4	0.0	-2.8	5.6
Current borrowings	2.8	-2.8	2.8	2.8

As a result, cash and cash equivalents decreased by EUR 18.5m during the year, resulting in Zalando carrying cash and cash equivalents of EUR 976.5m as of December 31, 2019 (see section 3.5.7 (19.)). Free cash flow increased by EUR 55.4m from EUR -13.8m to EUR 41.6m compared to the prior year.

Zalando's liquidity position – as the sum of cash and cash equivalents plus term deposits with an original term of more than three months but less than twelve months – declined in 2019 by EUR 13.5m to EUR 1,001.5m.

3.5 NOTES TO THE CONSOLIDATED FINANCIAL
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Deferred tax assets and liabilities recognized as of the reporting dates of the reporting and comparative periods break down as follows:

Deferred Tax Assets and Liabilities

	Deferred tax assets		Deferred tax liabilities		Net balance	
	Dec 31, 2019	Dec 31, 2018	Dec 31, 2019	Dec 31, 2018	Dec 31, 2019	Dec 31, 2018
IN EUR M						
Intangible assets	0.2	0.4	-29.0	-29.7	-28.8	-29.4
Property, plant and equipment	1.5	0.5	-153.2	-7.0	-151.7	-6.5
Inventories	0.0	0.4	-7.9	-6.4	-7.9	-6.0
Trade and other receivables	0.8	1.4	-7.8	-3.9	-7.0	-2.5
Provisions	9.3	8.2	0.0	0.0	9.3	8.2
Other financial and non-financial liabilities	167.6	7.5	-1.4	-0.3	166.2	7.2
Share-based payments	16.9	6.4	0.0	0.0	16.9	6.4
Unused tax losses	1.5	1.3	0.0	0.0	1.5	1.3
Total	197.8	26.1	-199.3	-47.3	-1.5	-21.2
Netting	-188.6	-23.8	188.6	23.8	0.0	0.0
Total recognized deferred tax assets and liabilities	9.2	2.3	-10.7	-23.5	-1.5	-21.2

Reduction of net deferred tax liabilities is mainly caused by changes in share-based payments (EUR 10.5m). Furthermore, the decrease in net deferred tax liabilities results from a decline in the market value of hedging derivatives (EUR 4.1m) and the application of IFRS 16, the new accounting standard on leases (net impact: EUR 2.8m). The strong increase in netting effect (EUR -188.6m) is also caused by the first-time application of IFRS 16 which resulted in deferred tax assets due to the recognition of lease liabilities on the one hand and deferred tax liabilities due to the recognition of right-of-use assets on the other (netting effect regarding lease contracts: EUR -149.1m).

Changes in the fair values of hedging derivatives (cash flow hedges) in equity had an equity-increasing effect from deferred taxes of EUR 6.7m (prior year: EUR 2.2m), which are included in other comprehensive income.

About half of the deferred tax assets on unused tax losses in the 2019 reporting year relate to foreign subsidiaries (EUR 0.8m; prior year EUR 1.3m). The amounts recognized are based on the tax results expected in the planning period.

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(28.) Financial Instruments

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

		Amount recognized in the statement of financial position pursuant to IFRS 9				
IN EUR M	Category pursuant to IFRS 9*	Carrying amount as of Dec 31, 2019	Amortized cost	Fair value not through profit and loss	Fair value through profit and loss	Fair value as of Dec 31, 2019
Assets						
Cash and cash equivalents	AC	976.5	976.5	–	–	–
Trade receivables	AC	462.3	462.3	–	–	–
Other financial assets	AC	36.6	36.6	–	–	–
Derivative financial instruments designated as hedging instruments	n.a.	6.6	–	4.1	2.5	6.6
Other derivative financial instruments	FVtPL	0.5	–	–	0.5	0.5
Corporate Investments	FVtPL	9.2	–	–	9.2	9.2
Liabilities						
Trade payables and similar liabilities	FLAC	1,708.3	1,708.3	–	–	–
Financial liabilities	FLAC	5.6	5.6	–	–	5.7
Other financial liabilities	FLAC	100.3	100.3	–	–	–
Derivative financial instruments designated as hedging instruments	n.a.	32.1	–	26.0	6.1	32.1
Other derivative financial instruments	FVtPL	–	–	–	–	–

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

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Carrying Amounts of Financial Assets / Liabilities and Their Fair Values 2018

		Amount recognized in the statement of financial position pursuant to IFRS 9				
IN EUR M	Category pursuant to IFRS 9*	Carrying amount as of Dec 31, 2018	Amortized cost	Fair value not through profit and loss	Fair value through profit and loss	Fair value as of Dec 31, 2018
Assets						
Cash and cash equivalents	AC	995.0	995.0	–	–	–
Trade receivables	AC	395.1	395.1	–	–	–
Other financial assets	AC	54.8	54.8	–	–	–
Derivative financial instruments designated as hedging instruments	n.a.	6.2	–	7.0	–0.7	6.2
Other derivative financial instruments	FVtPL	2.7	–	–	2.7	2.7
Corporate Investments	FVtPL	9.2	–	–	9.2	9.2
Liabilities						
Trade payables	FLAC	1,298.9	1,298.9	–	–	–
Financial liabilities	FLAC	8.4	8.4	–	–	8.3
Other financial liabilities	FLAC	90.7	90.7	–	–	–
Derivative financial instruments designated as hedging instruments	n.a.	13.2	–	14.1	–0.9	13.2
Other derivative financial instruments	FVtPL	3.1	–	–	3.1	3.1

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

As of the reporting date, Zalando had forward exchange contracts in pounds sterling, Norwegian kroner, Polish zloty, Swedish kroner, Swiss francs, Czech kroner and US dollars as well as interest rate swaps in Euros.

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

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Nominal Amounts and Market Values of Derivative Financial Instruments

	Nominal value	Market value			Nominal value	Market value
		Assets	Liabilities	Total		
IN EUR M	Dec 31, 2019	Dec 31, 2019	Dec 31, 2019	Dec 31, 2019	Dec 31, 2018	Dec 31, 2018
Forward exchange contracts in a hedge relationship	1,768.4	6.6	32.0	-25.5	1,537.9	-7.0
Thereof: in cash flow hedge	1,624.1	5.8	27.7	-21.9	1,382.3	-7.5
Thereof: in fair value hedge	144.3	0.8	4.3	-3.5	155.6	0.5
Interest rate swaps in a hedge relationship	3.3	0.0	0.1	-0.1	5.0	-0.1
Freestanding forward exchange contracts	71.9	0.5	0.0	0.5	48.3	-0.2
Total	1,843.6	7.1	32.1	-25.0	1,591.2	-7.3

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

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

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

If all contractual partners fail to meet their obligations from the forward exchange contracts, the credit risk for the group amounts to EUR 0.0m as of the reporting date (prior year: EUR 0.2m).

The forward exchange contracts in place as of the reporting date have a remaining term of up to 14 months. The interest rate swap has a remaining term of 24 months.

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

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

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Average contract rates of the hedging instruments

	CHF	CZK	GBP	NOK	PLN	SEK	USD
Average contract rates as of Dec 31, 2019	1.1117	25.7867	0.8884	10.0627	4.3978	10.6366	1.1551
Average contract rates as of Dec 31, 2018	1.1414	n.a.	0.8972	9.6857	4.3797	10.3661	1.1804

Net Gains and Losses from Financial Assets and Financial Liabilities

The net gains / losses from financial assets and financial liabilities contain effects from the fair value measurement of derivatives that are not designated as a hedge and changes in the fair value of other financial instruments as well as interest payments. In addition, the net gains / losses contain effects from the impairment losses, reversals of impairment losses, derecognition and exchange rate fluctuations of loans and receivables as well as liabilities measured at amortized cost.

Net Gains and Losses from Financial Instruments 2019

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

Net Gains and Losses from Financial Instruments 2018

IN EUR M	From interest affecting profit or loss	From subsequent measurement affecting profit or loss			From disposal affecting profit or loss	Total 2019
		At fair value	Currency translation	Allowances		
Assets						
Amortized costs	1.7	0.0	5.4	−47.1	−2.8	−42.8
Fair value through profit or loss*	−1.5	4.9	0.0	0.0	0.0	3.4
Liabilities						
Amortized costs	−7.9	0.0	0.4	0.0	0.0	−7.5
Total	−7.7	4.9	5.8	−47.1	−2.8	−46.9

*) Prior year figures were adjusted.

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Changes in the reserve for Cash Flow Hedges 2019

IN EUR M	Currency risk	Interest rate risk	Total 2019
Balance at Jan 1, 2019	-7.1	-0.2	-7.2
Gains or losses from effective hedging relationships	-2.7	0.1	-2.6
Reclassifications due to changes in expectations about the hedged item	0.2	0.0	0.2
Reclassifications due to realization of the hedged item	-12.2	-0.1	-12.4
Balance at Dec 31, 2019	-21.8	-0.1	-21.9

Changes in the reserve for Cash Flow Hedges 2018

IN EUR M	Currency risk	Interest rate risk	Total 2018
Balance at Jan 1, 2018	11.7	-0.2	11.5
Gains or losses from effective hedging relationships	-32.1	0.1	-32.0
Reclassifications due to changes in expectations about the hedged item	0.1	0.0	0.1
Reclassifications due to realization of the hedged item	13.2	-0.1	13.1
Balance at Dec 31, 2018	-7.1	-0.2	-7.2

Fair Value Hierarchy

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

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

Level assignment

Assets	
Derivative financial instruments designated as hedging instruments	Level 2
Other derivative financial instruments	Level 2
Corporate Investments	Level 2
Liabilities	
Financial liabilities	Level 2

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

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

Offsetting

Zalando concludes agreements for derivative financial instruments in accordance with the global netting agreements of the ISDA (International Swaps and Derivatives Association) and other comparable national framework agreements. The requirements according to IAS 32.42 on presenting a net amount of financial instruments recognized in the statement of financial position is typically not met as they only grant the right to offset for future events, for instance the default of one of the contractual parties.

Financial assets and liabilities that are subject to netting agreements or similar contracts are presented below.

Netting of Financial Instruments 2019

IN EUR M	Gross amount	Amount netted in the statement of financial position	Net amount shown in the statement of financial position
Financial assets			
Derivative financial assets	7.1	0.0	7.1
Financial liabilities			
Derivative financial liabilities	32.1	0.0	32.1

Netting of Financial Instruments 2018

IN EUR M	Gross amount	Amount netted in the statement of financial position	Net amount shown in the statement of financial position
Financial assets			
Derivative financial assets	8.2	0.0	8.2
Financial liabilities			
Derivative financial liabilities	15.4	0.0	15.4

3.5.8 Other Notes**(1.) Risks Relating to Financial Instruments and Financial Risk Management**

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

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

Market Risk

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

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

The transaction risk relates to the fact that exchange rate fluctuations can lead to changes in value of future foreign currency payments. Zalando operates in different markets and is therefore exposed to foreign currency risk generated from revenues and sourcing transactions in foreign currencies. Forward exchange contracts are used to hedge these activities. For this purpose, plain vanilla OTC derivative financial instruments are concluded and processed in accordance with internal guidelines that set out binding rules for the scope of action and responsibilities as well as reporting and controls. Risk exposure is hedged with a standard layered approach. The economic relationship between the hedged item and the hedging instrument is determined prospectively through critical terms match based on currency, tenor and notional. The hedge ratio is established through internal approval processes and calculated based on outstanding notional volume of FX-forwards in relation to the notional volume of the underlying highly probable forecasted transactions. As of the reporting date, the average hedge ratio for 2019 lies in a range between 77.2% and 80.6%, depending on the currency. Sources of hedge ineffectiveness can be changes in the forecasted highly probable underlying business transactions.

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

If the euro had appreciated by 5% against the foreign currencies as of December 31, 2019, earnings before taxes would have been EUR 10.3m lower (prior year: EUR 12.8m). If the euro had depreciated 5% compared with the exchange rate as of December 31, 2019, earnings before taxes would have been EUR 11.4m higher (prior year: EUR 14.2m).

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

Foreign Currency Sensitivity on Profit or Loss 2019

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

Foreign Currency Sensitivity on Profit or Loss 2018

Impact on profit or loss									
IN EUR M	CHF	CZK	DKK	GBP	NOK	PLN	SEK	USD	Total
FX rate as of Dec 31, 2018	1.1269	25.7240	7.4673	0.8945	9.9483	4.3014	10.2548	1.1450	
5% increase in FX rate	-5.0	-0.3	-1.0	-1.4	-0.8	-3.1	-0.9	-0.3	-12.8
5% decrease in FX rate	5.5	0.3	1.1	1.5	0.9	3.5	1.0	0.4	14.2

The reserve for derivatives in group equity would have been EUR 57.1m higher (prior year: EUR 43.5m higher) if the euro had appreciated 5% compared with the exchange rate as of December 31, 2019. This reserve would have been EUR 63.1m lower (prior year: EUR 48.1m lower) if the euro had depreciated 5%.

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

Foreign Currency Sensitivity on Other Comprehensive Income 2019

Impact on other comprehensive income								
IN EUR M	CHF	CZK	GBP	NOK	PLN	SEK	USD	Total
FX rate as Dec 31, 2019	1.0854	25.408	0.8508	9.8638	4.2568	10.4468	1.1234	
5% increase in FX rate	35.6	2.1	−2.5	7.8	13.0	9.2	−8.1	57.1
5% decrease in FX rate	−39.4	−2.3	2.8	−8.6	−14.4	−10.2	9.0	−63.1

Foreign Currency Sensitivity on Other Comprehensive Income 2018

Impact on other comprehensive income								
IN EUR M	CHF	CZK	GBP	NOK	PLN	SEK	USD	Total
FX rate as Dec 31, 2018	1.1269	25.7240	0.8945	9.9483	4.3014	10.2548	1.1450	
5% increase in FX rate	30.0	0.0	−1.7	6.1	9.2	7.6	−7.8	43.5
5% decrease in FX rate	−33.2	0.0	1.8	−6.7	−10.2	−8.4	8.6	−48.1

The interest rate risk arises from interest rate fluctuations on the earnings, equity or cash flow for the current or future reporting period. Interest rate risks from financial instruments in the group are mainly related to financial liabilities with floating interest rate. This exposure is hedged with plain vanilla OTC interest rate swaps. The economic relationship between the hedged item and the hedging instrument is determined prospectively through critical terms match based on interest rate, tenor, notional and reset period. The hedge ratio is established through internal approval processes and calculated based on outstanding notional volume of the interest rate swap's notional in relation to notional volume of loan risk exposure. As of the reporting date, the average hedge ratio for 2019 amounts to 100%.

With a 50 bp decrease in the 3M EURIBOR the interest expense would have been EUR 0.1m higher (prior year: EUR 0.2m higher). A 50 bp increase of 3M EURIBOR would have no effect, either in the current or prior year.

Credit Risk

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

There is no significant concentration of credit risk.

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

Liquidity Risk

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

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

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

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

The tables below show the contractually agreed (undiscounted) interest and principal payments for primary financial liabilities and for derivative financial instruments with their negative fair value. All instruments in the portfolio as of December 31, 2019, and December 31, 2018, and for which payments had already been contractually agreed were included. Planned figures for new future liabilities were not included. The floating-rate interest payments from the financial instruments were determined based on the interest rates most recently fixed before December 31, 2019, and December 31, 2018, respectively. All on-call financial liabilities are always allocated to the earliest possible date.

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Payments for Financial Liabilities and Derivative Financial Instruments 2019

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

Payments for Financial Liabilities and Derivative Financial Instruments 2018

	Carrying amount	Cash flows 2019		Cash flows 2020 – 2023		Cash flows 2024 and ff.	
IN EUR M	Dec 31, 2018	Interest	Repay- ments	Interest	Repay- ments	Interest	Repay- ments
Borrowings	8.4	0.2	2.8	0.2	5.6	0.0	0.0
Trade payables and similar liabilities	1,298.9	1.4	1,298.9	0.0	0.0	0.0	0.0
Other financial liabilities	106.9	0.1	104.6	0.1	2.4	0.0	0.0
thereof from derivatives	15.5	0.1	14.1	0.1	1.3	0.0	0.0
Total	1,414.2	1.7	1,406.3	0.3	7.9	0.0	0.0

There were no breaches of covenants under the revolving credit facility or any other external borrowing in 2019.

Capital Management

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

Capital management and its objectives and definition are based on key performance indicators derived from the consolidated financial statements in accordance with IFRS. Zalando defines the equity ratio key performance indicator as the ratio of equity to total assets and the net working capital key performance indicator as the sum of inventories and trade receivables less trade payables and similar liabilities. The equity ratio stood at 38.9% as of the reporting date (prior year: 47.9%) and net working capital came to EUR -147.7m as of the reporting date (prior year: EUR -84.3m).

The company achieved the key performance indicator targets set by management during both the 2019 year and in the prior year.

Collateral

Zalando pledged financial assets of EUR 2.5m as collateral in the reporting period (prior year: EUR 2.9m). They mainly relate to collateral in connection with leases. The collateral provided may be drawn by the beneficiaries should the group not be able to fulfill its payment obligations.

(2.) Information about Related Parties

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

Goods and services from related parties give rise to liabilities of EUR 135.4m as of the reporting date (prior year: EUR 86.7m). Of this amount, EUR 131.2m (prior year: EUR 82.1m) is due to a reverse factoring provider on account of reverse factoring agreements between Zalando and related parties. As a result, there were trade payables or similar liabilities due directly to related parties totaling EUR 4.2m (prior year: EUR 4.5m). Furthermore, trade receivables from related parties amount to EUR 0.3m (prior year: EUR 0.3m).

Merchandise of EUR 274.6m was ordered from related parties in the reporting period. The order volume totaled EUR 215.1m in the comparative period of the prior year. In addition, goods totaling EUR 3.0m were sold to related parties (prior year: EUR 4.5m). The cost of services received from related parties came to EUR 0.2m in the reporting period (prior year: EUR 0.3m). Furthermore, Zalando provided services to related parties totaling EUR 14.1m (prior year: EUR 0.5m).

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

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

Members of the Management Board

Management Board	Profession
Robert Gentz	Management Board member responsible for marketing and sales as well as human resources
David Schneider	Management Board member responsible for the fashion perspective and brand partners
Rubin Ritter	Management Board member responsible for strategy and communications
James M. Freeman, II (member since April 1, 2019)	Management Board member responsible for customer experience and technology perspective
David Schröder (member since April 1, 2019)	Management Board member responsible for the financial and operational perspective

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

Members of the Supervisory Board

Supervisory Board	Profession held	Member of the Supervisory Board since
Dominik Asam (member until May 22, 2019)	CFO Airbus SE (since April 2019) CFO Infineon Technologies AG (until March 2019), Munich	May 31, 2017
Kelly Bennett	Advisor to Spotify CEO and Microsoft Xbox (since October/August 2019) CMO Netflix, Inc. (until July 2019), Los Gatos, USA	May 22, 2019
Anthony Brew	Employed at Zalando Ireland Ltd., Dublin, Ireland	May 23, 2018
Lothar Lanz (member and chairperson until May 22, 2019)	Member of various Supervisory Boards	February 10, 2014
Jørgen Madsen Lindemann	CEO & President Modern Times Group MTG AB, Klampenborg, Denmark	May 31, 2016
Anders Holch Povlsen (vice chairperson)	CEO Bestseller A / S, Brande, Denmark	December 12, 2013
Shanna Prevé (member until May 22, 2019)	Managing Director Business Development for Google Consumer Hardware Group, San Francisco, USA	May 31, 2017
Mariella Röhm-Kottmann	Senior Vice President, Head of Corporate Accounting of ZF Friedrichshafen AG, Friedrichshafen	May 22, 2019
Alexander Samwer	Independent internet entrepreneur, Munich	December 12, 2013
Konrad Schäfers	Employed at ZALANDO SE, Berlin	June 2, 2015
Beate Siert	Employed at ZALANDO SE, Berlin	June 2, 2015
Cristina Stenbeck (member and chairperson)	Entrepreneur, investor and member of boards of directors	May 22, 2019

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

In fiscal year 2019, expenses of EUR 25.3m were recorded for the members of management who hold key positions in the group (prior year: EUR 11.1m). Of this amount, EUR 24.2m is attributable to share-based payment awards in fiscal year 2019 (prior year: EUR 10.5m). The expenses for share-based payment awards are calculated using graded vesting, which means that the periodical expense gradually decreases over the course of the vesting period. All other remuneration is classified as short-term benefits.

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

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

Total remuneration of the Management Board totaled EUR 1.7m in fiscal year 2019 (prior year: EUR 0.6m). In fiscal year 2019 0.8m new option rights were granted to the Management Board under the new Stock Option Plan LTI 2019 (prior year: 5.3m options under LTI 2018). The options have a total fair value of EUR 13.1m (prior year: EUR 57.5m). Further information regarding Section 314 (1) No. 6a HGB can be found in the remuneration report, which is presented in the corporate governance report and is part of the combined management report.

The members of the Supervisory Board received remuneration of EUR 0.8m in fiscal year 2019 (prior year: EUR 0.8m). The Management Board and Supervisory Board propose to the annual general meeting to grant remuneration in accordance with the provision contained in Art. 15 of ZALANDO SE'S Articles of Association.

(4.) Corporate Governance Declaration

The declaration by the Management Board and the Supervisory Board regarding the Corporate Governance Code pursuant to Section 161 AktG of December 2017 is published on the company's website.

(5.) Business Combinations

There were no business combinations in fiscal years 2019 and 2018.

(6.) Average Number of Employees

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

Average Number of Employees

IN EUR M	2019	2018
Commercial	2,504	2,417
Operations	8,156	9,465
Technology	2,138	2,090
Other	1,439	1,554
Total	14,237	15,526

(7.) Information Regarding the Auditor

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

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

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

(8.) Shareholdings

ZALANDO SE's direct and indirect shareholdings in its subsidiaries as of December 31, 2019, can be summarized as follows:

List of Shareholdings

No.	Company	Company domicile	Currency	Share of equity held by*	Share in capital in % 2019
Subsidiaries					
1	zLabels GmbH	Berlin	EUR	Directly	100.0
2	Zalando Operations GmbH	Berlin	EUR	Directly	100.0
3	Zalando Logistics SE & Co. KG	Erfurt	EUR	Directly 2	99.0 1.0
4	Zalando Logistics Mönchengladbach SE & Co. KG	Mönchengladbach	EUR	Directly 2	99.0 1.0
5	Zalando Logistics Süd SE & Co. KG	Berlin	EUR	Directly 2	99.0 1.0
6	Zalando S.A.S.	Paris, France	EUR	Directly	100.0
7	Zalando Customer Care DACH SE & Co. KG	Berlin	EUR	Directly 2	99.0 1.0
8	Zalando Customer Care International SE & Co. KG	Berlin	EUR	Directly 2	99.0 1.0
9	Zalando Fashion Entrepreneurs GmbH	Berlin	EUR	Directly	100.0
10	Zalando Lounge Service GmbH	Berlin	EUR	Directly	100.0
11	Zalando Outlets GmbH	Berlin	EUR	Directly	100.0
12	Zalando Ireland Ltd	Dublin, Ireland	EUR	Directly	100.0
13	Zalando Finland Oy	Helsinki, Finland	EUR	Directly	100.0
14	Bread & Butter GmbH & Co. KG	Berlin	EUR	Directly	100.0
15	Portokali Property Development III SE & Co. KG	Berlin	EUR	Directly 2	99.9 0.1
16	Zalando Studios Berlin GmbH	Berlin	EUR	Directly	100.0
17	Mobile Fashion Discovery GmbH	Berlin	EUR	Directly	100.0
18	Zalando Marketing Services GmbH	Berlin	EUR	Directly	100.0
19	Bread & Butter Tradeshow Verwaltungs GmbH	Berlin	EUR	14	100.0
20	zLabels Trading Ltd.	Hong Kong, Hong Kong	HKD	1	100.0
21	zLabels China Trading Co. Ltd.	Dongguan, China	CNY	20	100.0
22	ifansho Holding GmbH	Berlin	EUR	Directly	100.0
23	nugg.ad GmbH	Berlin	EUR	18	100.0

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List of Shareholdings

No.	Company	Company domicile	Currency	Share of equity held by*	Share in-capital in % 2019
24	Zalando Logistics Operations Polska sp. z o.o.	Gardno, Poland	PLN	2	100.0
25	Tradebyte Software GmbH	Ansbach	EUR	Directly	100.0
26	Zalando Lounge Logistics SE & Co. KG	Berlin	EUR	Directly 2	99.0 1.0
27	zLabels Trading Southern Europe S.L.U	Elche, Spain	EUR	1	100.0
28	zLabels LP GmbH	Berlin	EUR	1	100.0
29	Zalando Payments GmbH	Berlin	EUR	Directly	100.0
30	Zalando Digital Portugal, Unipessoal Lda	Lisbon, Portugal	EUR	Directly	100.0
31	Kickz Never Not Ballin' GmbH	Munich	EUR	Directly	100.0
32	Zalando Beauty Store GmbH	Berlin	EUR	Directly	100.0
33	Zalando Lounge Logistics Polska sp. z o.o.	Olsztynek, Poland	PLN	Directly	100.0
34	Anatwine Ltd.	Cheltenham, United Kingdom	GBP	Directly	98.5
35	Anatwine, Inc.	New Castle, Delaware, USA	USD	34	100.0
36	Zalando OpCo Polska sp. z o.o.	Gluchow, Poland	PLN	2	100.0
37	zLabels Creation & Sales GmbH & Co. KG	Berlin	EUR	1 28	99.0 1.0
38	zLabels Platform Services GmbH & Co. KG	Berlin	EUR	1 28	99.0 1.0
39	Zalando Logistics Operations Italy S.R.L.	Bolzano, Italy	EUR	Directly	100.0
40	Zalando Logistics Operations Netherlands B.V.	Amsterdam, Netherlands	EUR	Directly	100.0
41	Zalando Lounge Content Solutions SE & Co. KG	Berlin	EUR	Directly 10	99.0 1.0
42	Zalando Customer Care Central Services SE & Co. KG	Berlin	EUR	Directly 2	99.0 1.0
43	Zalando Outlet Stores GmbH & Co. KG	Berlin	EUR	11 2	99.0 1.0
44	Kickz.com GmbH	Berlin	EUR	31	100.0
45	Fashion Circle GmbH	Berlin	EUR	Directly	100.0
46	Zalando Logistics Services SE & Co. KG	Berlin	EUR	Directly 2	99.0 1.0
47	Zalando BTD 003 GmbH	Berlin	EUR	Directly	100.0
48	Zalando BTD 007 SE & Co. KG	Berlin	EUR	Directly 2	99.0 1.0
Associated companies and joint ventures					
49	Le New Black S.A.S.	Paris, France	EUR	23	33.8
50	FashionTrade.com B.V.	Amsterdam, Netherlands	EUR	23	50.0

Changes in the list of shareholdings consist of the disposal of Zalando Studios Erfurt SE & Co. KG, the change of the company names of Zalando Customer Care Central Services SE & Co. KG (prior year: Zalando BTD 004 SE & Co. KG) and Zalando Outlet Stores GmbH & Co. KG (prior year: Zalando BTD 005 SE & Co. KG) as well as the founding of Kickz.com GmbH, Fashion Circle GmbH, Zalando Logistics Services SE & Co. KG, Zalando BTD 003 GmbH and Zalando BTD 007 SE & Co. KG.

(9.) Disclosure Exemptions

In accordance with Section 264b HGB, the partnerships⁴⁰ listed as shareholdings are exempt from the requirement to disclose their financial statements and to prepare notes to the financial statements and a management report. In accordance with the provisions of Section 264 (3) HGB, zLabels GmbH, Zalando Lounge Service GmbH, Zalando Outlets GmbH, Zalando Fashion Entrepreneurs GmbH, Tradebyte Software GmbH, Zalando Studios Berlin GmbH and Zalando Marketing Services GmbH are exempt from the requirement to disclose their financial statements and to prepare notes to the financial statements and a management report.

(10.) Segment Reporting

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

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

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

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

⁴⁰⁾ Partnerships, which are exempt from the requirement to disclose their financial statements are presented with the following numbers in the list of shareholdings shown on the previous pages: 3, 4, 5, 7, 8, 14, 15, 26, 37, 38, 41, 42, 43, 46 and 48.

3.5 NOTES TO THE CONSOLIDATED FINANCIAL
STATEMENTS

Segment Reporting 2019

IN EUR M	Fashion Store	Offprice	All other segments	Total 2019	Reconcilia- tion	Total Group
Revenue	5,964.9	659.4	252.3	6,876.6	-394.1	6,482.5
thereof intersegment revenue	280.5	0.0	113.6	394.1	-394.1	0.0
Cost of sales	-3,470.0	-392.5	-185.4	-4,048.0	323.7	-3,724.3
thereof intersegment cost of sales	-382.8	0.0	-101.2	-484.0	484.0	0.0
Gross profit	2,494.9	267.0	66.8	2,828.7	-70.4	2,758.3
thereof intersegment gross profit	-102.3	0.0	12.4	-89.9	89.9	0.0
Selling and distribution costs	-2,085.9	-205.6	-74.7	-2,366.2	71.0	-2,295.2
thereof intersegment selling and distribution costs	-50.1	-14.7	-17.7	-82.5	82.5	0.0
Administrative expenses	-228.5	-38.8	-31.6	-298.9	0.0	-298.9
Other operating income / expenses	1.0	0.7	0.0	1.6	0.0	1.6
Earnings before interest and taxes (EBIT)	181.4	23.2	-39.4	165.2	0.6	165.8

Segment Reporting 2018

IN EUR M	Fashion Store	Offprice	All other segments	Total 2018	Reconcilia- tion	Total Group
Revenue	4,967.7	497.5	444.8	5,909.9	-522.0	5,387.9
thereof intersegment revenue	183.0	0.0	339.0	522.0	-522.0	0.0
Cost of sales	-2,945.3	-299.3	-357.9	-3,602.5	495.5	-3,107.0
thereof intersegment cost of sales	-370.3	0.0	-269.1	-639.3	639.3	0.0
Gross profit	2,022.4	198.2	86.8	2,307.4	-26.5	2,280.9
thereof intersegment gross profit	-187.3	0.0	70.0	-117.3	117.3	0.0
Selling and distribution costs	-1,709.5	-143.8	-73.1	-1,926.4	27.2	-1,899.2
thereof intersegment selling and distribution costs	-27.2	0.0	0.0	-27.2	27.2	0.0
Administrative expenses	-200.9	-23.1	-44.9	-268.9	0.0	-268.9
Other operating income / expenses	3.9	0.9	1.6	6.4	0.0	6.4
Earnings before interest and taxes (EBIT)	115.9	32.3	-29.6	118.6	0.7	119.2

Of the total external revenue generated in the group, Germany accounts for the largest part, 31.3% (prior year: 31.7%), followed by Switzerland with a share in the low double-digit percentage range. External revenues are attributed to countries on the basis of the place where Zalando is transferring the promised goods or services to a customer. Most of the non-current assets of the group of EUR 1,434.1m are located in Germany (57.3%). The group also holds considerable non-current assets in its fulfillment centers in Poland (21.6%) and Italy (11.9%).

Cost of sales include valuation allowances of inventories for the Fashion Store segment of EUR 162.1m (prior year: EUR 151.8), for the Offprice segment of EUR 14.8m (prior year: EUR 9.2m) and for all other segments of EUR 2.8m (prior year: EUR 3.2m).

The selling and distribution costs contain valuation allowances of trade receivables and write-downs due to uncollectible receivables for the Fashion Store segment of EUR 38.6m (prior year: EUR 47.2m), for the Offprice segment of EUR 1.0m (prior year: EUR 1.0m) and for all other segments of EUR 2.6m (prior year: EUR 1.7m).

Total expenses include depreciation and amortization of intangible assets, property, plant and equipment and right-of-use assets for the Fashion Store segment of EUR 161.9m (prior year: EUR 73.5m), for the Offprice segment of EUR 19.4m (prior year: EUR 5.0m) and for all other segments of EUR 13.6m (prior year: EUR 8.0m).

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

(11.) Subsequent Events

No significant events occurred after the reporting date which could materially affect the presentation of the financial performance and position of the group.

(12.) Authorization of the Financial Statements for Issue

The consolidated financial statements and group management report of ZALANDO SE are published in the Bundesanzeiger [German Federal Gazette]. The consolidated financial statements and the group management report were authorized for issue by the Management Board on February 25, 2020.

Berlin, February 25, 2020

The Management Board

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

3.6 Responsibility Statement by the Management Board

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

Berlin, February 25, 2020

The Management Board

Robert Gentz

David Schneider

Rubin Ritter

James M. Freeman, II

David Schröder

3.7 Independent Auditor's Report

To ZALANDO SE

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

Opinions

We have audited the consolidated financial statements of ZALANDO SE, Berlin, its subsidiaries (the group), which comprise the consolidated statement of comprehensive income for the fiscal year from January 1 to December 31, 2019, the consolidated statement of financial position as at December 31, 2019, the consolidated statement of changes in equity and the consolidated statement of cash flows for the fiscal year from January 1 to December 31, 2019, and the notes to the consolidated financial statements, including a summary of significant accounting policies. We have also audited the group management report of ZALANDO SE, which was combined with the management report of the company, for the fiscal year from January 1 to December 31, 2019. In accordance with the German legal requirements, we have not audited the information included in the statement on corporate governance in accordance with Section 315d HGB contained in the corporate governance report in the group management report as well as the comments marked as unaudited in the group management report.

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

- the accompanying consolidated financial statements comply, in all material respects, with IFRSs as adopted by the EU and the supplementary provisions of German law pursuant to Section 315e (1) HGB and give a true and fair view of the assets and liabilities and financial position of the group as at December 31, 2019 and its financial performance for the fiscal year from January 1 to December 31, 2019 in accordance with these requirements, and
- the accompanying group management report as a whole provides an appropriate view of the group's position. In all material respects, this group management report is consistent with the consolidated financial statements, complies with German legal requirements and appropriately presents the opportunities and risks of future development. Our opinion on the group management report does not cover the content of the comments marked as unaudited in the group management report or the content of the statement on corporate governance pursuant to Section 315d HGB contained in the corporate governance report of the group management report.

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

Basis for the Opinions

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

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

Key Audit Matters in the Audit of the Consolidated Financial Statements

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

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

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

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

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

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

Auditor's Response

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

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

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

Reference to Related Disclosures

With regard to the accounting policies applied for the recognition of merchandise revenue, we refer to the company's disclosures in Notes 3.5.5 (Accounting Policies) and 3.5.7 (1.) (Revenue) in the Notes to the Consolidated Financial Statements.

2) Subsequent Measurement of Merchandise Inventory

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

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

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

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

Auditor's Response

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

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

Within the scope of the valuation model, the executive directors consider the expected sell-through of merchandise for various sales channels and seasons. We compared the timing of the sell-through using past data with actual sales and examined any significant deviations or irregularities in detail.

In addition, we considered the allocation to seasons and valuation groups as well as the classification of articles always available in the valuation model.

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

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

Reference to Related Disclosures

With regard to the accounting policies applied for the subsequent measurement of merchandise, we refer to the company's disclosures in Notes 3.5.5 (Accounting Policies) and 3.5.7 (16.) (Inventories) in the Notes to the Consolidated Financial Statements.

Other Information

The Supervisory Board is responsible for the report of the Supervisory Board. In all other respects, the executive directors are responsible for the other information. Other information comprises the information included in the statement on corporate governance pursuant to Section 315d HGB contained in the corporate governance report in the group management report as well as the comments marked as unaudited in the group management report and the remaining components of the annual report, with the exception of the audited consolidated financial statements and group management report as well as our independent auditor's report, in particular:

- the responsibility statement contained in the responsibility statement by the Management Board pursuant to Section 297 (2) Sentence 4 HGB and Section 315 (1) Sentence 5 HGB
- the combined non-financial report contained in the "Corporate Responsibility" section pursuant to Section 315b HGB
- the "Report of the Supervisory Board" section.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Other Legal and Regulatory Requirements

Further Information Pursuant to Article 10 of the EU Audit Regulation

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

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

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

- review of the company's voluntarily prepared half-year financial statements as at June 30, 2019
- audit of the system to comply with the requirements pursuant to Section 32 (1) WpHG [“Wertpapierhandelsgesetz”: German Securities Trading Act]
- audit to obtain limited assurance of the non-financial statement pursuant to Section 289b et seq. and Section 315b et seq. HGB
- assurance services with regard to financial information required by law
- translation services

German Public Auditor Responsible for the Engagement

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

Berlin, February 25, 2020

Ernst & Young GmbH
Wirtschaftsprüfungsgesellschaft

Ludwig
Wirtschaftsprüfer
[German Public Auditor]

Haas
Wirtschaftsprüfer
[German Public Auditor]

Service

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04

4.1 Glossary

Active Customers

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

Adjusted EBIT

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

Adjusted EBITDA

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

Average Basket Size

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

Average Orders per Active Customer

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

Capex

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

Corporate Responsibility

Corporate responsibility (CR) is a business approach that takes responsibility for social and environmental impacts resulting out of company activity. The goal is to create long-term value for shareholders, other stakeholders and communities by embracing the opportunities associated with economic, environmental and social developments.

EBIT

EBIT is short for earnings before interest and taxes.

EBITDA

EBITDA is short for EBIT before depreciation and amortization of property, plant and equipment and intangible assets.

EBIT Margin

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

Fashion Verticals

Fashion companies that control the entire value chain (manufacturing, design, distribution and retail) (e.g. Inditex or Uniqlo).

Fast Fashion

Fast fashion refers to affordable fashion or clothing that quickly transfers from the catwalk to stores in order to capture the most recent fashion trends.

Free Cash Flow

Cash flow from operating activities plus cash flow from investment activities (excluding investments in time deposits and restricted cash).

GMV

GMV (gross merchandise volume) is defined as the value of all merchandise sold to customers after cancellations and returns and including VAT, dynamically reported. It does not include B2B revenues (e.g. Partner Program commission, Zalando Marketing Services or Zalando Fulfillment Solutions) and other B2C revenues (e.g. service charges like express delivery fees); these are included in revenue only. GMV is recorded based on the time of the customer order.

Mobile Visit Share (As % of Site Visits)

We define the mobile visit share (as % of site visits) as the number of page views via m.sites, t.sites or apps divided by the total number of page views during the period in question.

Net Working Capital

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

Number of Orders

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

Private Labels

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

Purpose

Our shared purpose is what unites us all it lies at the core of everything we do: reimagine fashion for the good of all. The shared purpose sets the course for the company and explains why Zalando exists and what influence we want to have on the world around us.

RAPEX

RAPEX is the Rapid Alert System of the European Commission for consumer protection.

REACH

REACH (Registration, evaluation, authorization and restriction of chemicals) is a European regulation on safe handling of chemical substances.

RMS

The Risk Management Team, as the dedicated instrument of the Management Board, has implemented a risk and opportunity management system (RMS) based on the framework of the Committee of Sponsoring Organizations of the Treadway Commission (COSO) Enterprise Risk Management Standard as well as on the Institute of Public Auditors in Germany (IDW) Assurance Standard 981.

Site Visits

We define site visits as the number of series of page views from the same device and the same source (via websites, m.sites, t.sites or apps) during the relevant period. The series is considered ended when a page view is not recorded for longer than 30 minutes.

4.2

GRI Index

GRI G4 Index

Number	Disclosures	Page	Notes in case of omissions and further explanations
GRI 102:	General disclosures		
	1. Organizational Profile		
102-1	Name of the organization	13, 93	
102-2	Activities, brands, products, and services	93	
102-3	Location of headquarters	93	
102-4	Location of operations	19, 31, 93	
102-5	Ownership and legal form	13, 93	
102-6	Markets served	93	
102-7	Scale of the organization	17, 93	
102-8	Information on employees and other workers	17	All employee figures reported do not include interns, working students and apprentices. Temporary staff helps us to manage especially high workloads. Those peak-times vary throughout the year, and the number of workers varies accordingly.
102-9	Supply chain	12, 25	
102-10	Significant changes to the organization and its supply chain during the reporting period	25	
102-11	Precautionary principles and approaches	14, 49	
102-12	Support for external initiatives	11, 24, 26, 28	
102-13	Membership of associations	11, 24, 25, 27	
	2. Strategy		
102-14	Statement from senior decision-maker	8	
	3. Ethics and Integrity		
102-16	Values, principles, standards, and norms of behavior	16, 18, 24, 27	Additionally you find our Code of Ethics and Code of Conduct for Business Partners on our website.
	4. Governance		
102-18	Governance structure	11, 93	
	5. Stakeholder Engagement		
102-40	List of stakeholder groups		Please find an overview with further information in our annual report 2017 on p. 15.
102-41	Collective bargaining agreements		Collective bargaining agreements apply to employment relationships in Finland.
102-42	Identifying and selecting stakeholders	11	Please find more detailed information in our annual report 2017 on p. 15.
102-43	Approach to stakeholder engagement	11	Please find an overview with further information in our annual report 2017 on p. 15.
102-44	Key topics and concerns raised		Please find an overview with further information in our annual report 2017 on p. 15.
	6. Reporting Practice		
102-45	Entities included in the consolidated financial statements	93	
102-46	Defining report content and topic boundaries	13	

4.2 GRI INDEX

GRI G4 Index

Number	Disclosures	Page	Notes in case of omissions and further explanations
102-47	List of material topics	13	The full list can be found in our annual report 2016 on p. 22.
102-48	Restatements of information		No restatements required.
102-49	Changes in reporting		No changes have occurred.
102-50	Reporting period		Jan 1 – Dec 31, 2019
102-51	Date of most recent report		February 28, 2019
102-52	Reporting cycle		Annual
102-53	Contact point for questions regarding the report	227	
102-54	Claims of reporting in accordance with the GRI Standards	13	
102-55	GRI content index	13	
102-56	External assurance		Our non-financial report including relevant key performance indicators (KPIs) was audited by Ernst & Young GmbH Wirtschaftsprüfungsgesellschaft with limited assurance in accordance with the International Standard on Assurance Engagement (ISAE) 3000 (revised).
GRI 200:	Economic Topics		
GRI 201:	Economic Performance		
103-1/2/3	Management approach	104, 126	
201-1	Direct economic value generated and distributed	104, 126	
GRI 205:	Anti-Corruption		
103-1/2/3	Management approach	47	
205-2	Communication and training about anti-corruption policies and procedures	48	
GRI 300:	Environmental Topics		
GRI 301:	Materials		
103-1/2/3	Management approach	23, 26, 31, 32	
301-1	Materials used by weight or volume	26, 31	
301-2	Recycled input materials used	26, 31	
301-3	Reclaimed products and their packaging materials	32	
GRI 302:	Energy		
103-1/2/3	Management approach	31	
302-1	Energy consumption within the organization	31	
GRI 303:	Water		
103-1/2/3	Management approach	26, 27	
303-1	Water withdrawal by source	26, 27	We work with partners to assess water withdrawal in our supply chain.
GRI 305:	Emissions		
103-1/2/3	Management approach	29	
305-1	Direct (Scope 1) GHG emissions	30	
305-2	Energy indirect (Scope 2) GHG emissions	30	
305-3	Other indirect (Scope 3) GHG emissions	30	

4.2 GRI INDEX

GRI G4 Index

Number	Disclosures	Page	Notes in case of omissions and further explanations
305-4	GHG emissions intensity	30	We chose the number of orders as the denominator of the intensity ratio.
GRI 306:	Effluents and Waste		
103-1/2/3	Management approach	32	
306-2	Waste by type and disposal method	32	
GRI 308:	Supplier Environmental Assessment		
103-1/2/3	Management approach	27, 28	
308-2	Negative environmental impacts in the supply chain and actions taken	25, 28	
GRI 400:	Social Topics		
GRI 401:	Employment		
103-1/2/3	Management approach	16, 20	
401-1	New employee hires and employee turnover	21	We do not consider regional aspects to be material and therefore do not track this dimension. Of most strategic relevance to us is voluntary turnover, which is why we focus on reporting this indicator.
GRI 402:	Labor / Management Relations		
103-1/2/3	Management approach	19	
402-1	Minimum notice periods regarding operational changes		We observe all legal requirements regarding the involvement of employee representatives and endeavor to inform employees in a timely manner before operational changes. As far as collective bargaining agreements apply, we of course observe all their applicable requirements.
GRI 403:	Occupational Health and Safety		
103-1/2/3	Management approach	18	
403-2	Types of injury and rates of injury, occupational diseases, lost days, and absenteeism, and number of work-related fatalities	18	We further improve our data collection processes in order to comply with all requirements of this indicator.
GRI 404:	Training and Education		
103-1/2/3	Management approach	20	
404-2	Training programs	20	
GRI 405:	Diversity and Equal Opportunity		
103-1/2/3	Management approach	16	
405-1	Diversity of governance bodies and employees	16, 17	
GRI 406:	Non-Discrimination		
103-1/2/3	Management approach	16	
406-1	Incidents of discrimination and corrective actions taken		In order to protect the privacy of our employees the number of cases is handled confidentially.
GRI 407:	Freedom of Association and Collective Bargaining		
103-1/2/3	Management approach	24, 25	
407-1	Operations and suppliers in which the right to freedom of association and collective bargaining may be at risk	25	We consider this indicator particularly relevant for suppliers of our private labels and therefore provide information in this context.
GRI 408:	Child Labor		
103-1/2/3	Management approach	24, 25	

4.2 GRI INDEX

GRI G4 Index

Number	Disclosures	Page	Notes in case of omissions and further explanations
408-1	Operations and suppliers at significant risk for incidents of child labor	25	We consider this indicator particularly relevant for suppliers of our private labels and therefore provide information in this context.
GRI 409:	Forced or Compulsory Labor		
103-1/2/3	Management approach	24, 25	
409-1	Operations and suppliers at significant risk for incidents of forced or compulsory labor	25	We consider this indicator particularly relevant for suppliers of our private labels and therefore provide information in this context.
GRI 412:	Human Rights Assessment		
103-1/2/3	Management approach	24, 25	
412-1	Operations that have been subject to human rights reviews	25	We consider this indicator particularly relevant for suppliers of our private labels and therefore provide information in this context.
GRI 413:	Local Communities		
103-1/2/3	Management approach	35	
413-1	Operations with local community engagement	35	We have implemented local community engagement programs, but we have not yet developed methodologies for impact assessment.
GRI 414:	Supplier Social Assessment		
103-1/2/3	Management approach	24, 25	
414-1	New suppliers that were screened using social criteria	25	
414-2	Negative social impacts in the supply chain and actions taken	25	
GRI 416:	Customer Health and Safety		
103-1/2/3	Management approach	24	
416-1	Assessment of the health and safety impacts of product and service categories		100% of product categories are assessed for risks and improvement possibilities e.g. regarding health and safety impacts by our Product Safety Teams.
GRI 418:	Customer Privacy		
103-1/2/3	Management approach	48	
418-1	Substantiated complaints regarding breaches of customer privacy and losses of customer data		Our Legal Department maintains close contacts with the data protection authorities in Berlin concerning the processing of personal data. In 2019, we received 23 inquiries from government agencies for the entire Zalando group. The inquiries concern, for example, data information and deletion requests from customers or the receiving of advertising messages. German authorities are legally obliged to investigate customer complaints.

4.3 Financial Calendar 2020

Financial Calendar

Date	Event
Thursday, May 7	Publication of the first quarter results 2020
Wednesday, May 20	Annual general meeting 2020
Tuesday, August 11	Publication of the second quarter results 2020
Wednesday, November 4	Publication of the third quarter results 2020

4.4 Imprint

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Statement Relating to the Future

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

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

