

01.5.5 MANAGEMENT BOARD AND SUPERVISORY BOARD SHAREHOLDINGS

As of the end of fiscal year 2015, the co-founders of the company and members of the Management Board Robert Gentz and David Schneider each held 1.85% of shares in the company. The Management Board member Rubin Ritter held less than 1% of shares. The Supervisory Board member Anders Holch Povlsen held 9.35% of shares at the end of fiscal year 2015. The other Supervisory Board members cumulatively held less than 1% of shares.

A report on the transactions conducted during fiscal year 2015 by those at management level is published on the ZALANDO SE website in the [Investor Relations](#) section.



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01.5.6 TAKEOVER LAW DISCLOSURES PURSUANT TO SECTIONS 289 (4), 315 (4) HGB⁹

The disclosures required according to Secs. 289 (4), 315 (4) HGB are listed and explained below. In the opinion of the Management Board, there is no need for more detailed explanations as defined in sections 175 (2) Sentence 1, 176 (1), Sentence 1 AktG.

COMPOSITION OF ISSUED CAPITAL

With respect to the composition of the issued capital, please refer to the notes to the consolidated financial statements.

RESTRICTIONS RELATING TO THE VOTING RIGHTS OR THE TRANSFER OF SHARES

At the end of the reporting year, ZALANDO SE had 50,000 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 2015, Verdere S.à.r.l. (Luxembourg) held an indirect shareholding in ZALANDO SE that exceeded the threshold of 10% of voting rights. Information on the amount of the above-mentioned shareholding in the company can be found in section 01.6.1 Shareholder structure.

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 Art. 9 (1), Art. 39 (2) and Art. 46 of the SE Regulation, Secs. 84 and 85 AktG and Art. 7 (4) of the Articles of Association, the Supervisory Board appoints the members of the Management Board for a maximum term of five years. In accordance with Art. 7 of the Articles of Association, the Management Board comprises at least two persons, otherwise the Supervisory Board determines the number of members of the Management Board.

The annual general meeting passes the resolutions to amend the Articles of Association. The amendments to the Articles of Association were made in accordance with Secs. 179, 133 AktG and Art. 12 of the Articles of Association. According to Art. 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 Art. 4 (3) and (4) of the Articles of Association, the Supervisory Board is specifically authorized to amend or rewrite Art. 4 of the Articles of Association (Share capital) following utilization of authorized or conditional capital.

⁹⁾ Takeover law disclosures pursuant to Secs. 289 (4), 315 (4) 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 share capital of the company in the period until October 28, 2018 subject to the approval of the Supervisory Board one or more times by a total of up to EUR 3,062,125 by issuing up to 3,062,125 no-par value bearer shares in exchange for cash contributions (authorized capital 2013). The subscription right of shareholders is excluded. The authorized capital 2013 serves to meet purchase rights (option rights) granted or promised by the company before its conversion into a stock corporation (AG) or affiliates or by shareholders of the company to employees or managing directors of the company and its affiliates in the period from March 2009 through September 2013. Shares from the authorized capital 2013 may only be issued for this purpose.

The Management Board is authorized to increase the **share capital of the company** in the period until June 1, 2020 subject to the approval of the Supervisory Board one or several times by a total of up to EUR 94,694,847 by issuing up to 94,694,847 new no-par value bearer shares in exchange for cash contributions and/or contributions in kind (authorized capital 2015). The shareholders must typically be granted subscription rights. The shares may also be taken over by one or more credit institution(s) or an enterprise as defined in section 186 (5) Sentence 1 AktG with the obligation to offer such shares to the shareholders for subscription (indirect subscription right).

The Management Board is to be authorized to preclude, subject to the approval of the Supervisory Board, the subscription rights of the shareholders in the following cases: (i) to exclude fractional amounts from the subscription rights, (ii) to grant subscription rights to holders or creditors of bonds with conversion and/or option rights or obligations to company shares as compensation for dilution, as it would have been granted to them after the exercise of these rights or after fulfilling obligations, (iii) in the case of a cash capital increase, if the issue amount of the new shares does not significantly fall below the quoted price of company shares already listed. This authorization is, however, subject to the proviso that the shares issued excluding subscription rights pursuant to section 186 (3) Sentence 4 AktG may not exceed a total of 10% of the share capital. This applies to the share capital existing both at the time the authorization comes into effect and, if the amount is lower, when it is exercised. This limit of 10% of the share capital includes shares that were issued or sold in direct or corresponding application of Sec. 186 (3), Sentence 4 AktG during the term of this authorization until the time of its utilization. This limit also includes those shares to be issued or sold to serve bonds with conversion and/or option rights or obligations during the term of this authorization, applying section 186 (3) Sentence 4 AktG precluding the subscription rights. Pursuant to the preceding two sentences, shares whose authorization has been exercised (i) to issue new shares in accordance with section 203 (1) Sentence 1, (2) Sentence 1, section 186 (3) Sentence 4 AktG and/or (ii) to sell treasury shares in accordance with section 71 (1) No. 8, section 186 (3) Sentence 4 AktG and/or (iii) to issue bonds with conversion or option rights or obligations in accordance with section 221 (4) Sentence 2, section 186 (3) Sentence 4 AktG, are no longer to be included in the future, if and to the extent which the annual general meeting would reissue the respective authorization(s) whose inclusion would have been affected were they to be exercised in accordance with legal requirements; or (iv) in the case of a non-cash capital increase, in particular in the form of entities, parts of entities, or equity investments receivables or other assets. After this authorization in exclusion of the shareholders' subscription rights in exchange for cash or non-cash contributions, the total of the issued shares may not represent more than 20% of the share capital, either on the date on which this authorization takes effect or on the date on which it is exercised. Until the share issue precludes subscription rights, this 20% limit is to include (i) treasury shares sold precluding subscription rights as well as (ii) shares that have been issued to serve bonds with conversion and option rights and/or obligations to the extent which the bonds had been issued precluding subscription rights of shareholders on the basis of

the authorization granted by the annual general meeting on June 2, 2015. The Management Board is authorized, subject to the approval of the Supervisory Board, to determine further details concerning the performance of the capital increase and the content of the respective share rights and the conditions of share issue. The Supervisory Board is authorized to amend the Articles of Association based on the performance of the increase in share capital or once the period of authorization expires.

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 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 acquire treasury shares through the use of derivatives. 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 annual general meeting or, if the amount is lower, share capital existing at the time this authorization is exercised. We refer to resolutions proposed by the Management Board and Supervisory Board in points 7 and 8 of the company's annual general meeting agenda for June 2, 2015, which was published in the Bundesanzeiger [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](#) allows for stock option rights held by the Management Board to be revoked in the case of a change of control. The Supervisory Board and/or the Management Board are entitled to request the proportionate cancellation of the vested outstanding options in line with share obtained by the acquiring company as a result of the change of control in exchange for payment by the company. With respect to the stock options not yet vested at the time of a change in control, the Supervisory Board is authorized at its own discretion to grant other performance-based compensation similar in terms of value (including share appreciation rights, phantom stocks or other stock options) in exchange for the cancellation of the stock options granted within the scope of SOP 2013.

SIGNIFICANT COMPANY AGREEMENTS SUBJECT TO A CHANGE OF CONTROL DUE TO A TAKEOVER BID

The significant group agreements that are subject to the condition of a change of control involve the revolving credit facility and various reverse factoring agreements concluded in connection with the initial public offering. In the event of a change of control, these agreements provide, as is customary for creditors, the right to terminate the agreement and accelerate repayment, or for factors, the right to terminate the agreement or renegotiate the contractual terms.

02.3 SUBSEQUENT EVENTS

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

02.4 RISK AND OPPORTUNITY REPORT

Zalando is regularly confronted by risks and opportunities that may positively or negatively impact the group's financial performance and position. The risk and opportunity report outlines our company's most important risks and opportunities.

02.4.1 INTEGRATED RISK AND OPPORTUNITY MANAGEMENT SYSTEM

The Management Board of ZALANDO SE bears overall responsibility for an effective risk and opportunity management system. This is ensured through the comprehensive and standardized management of all key risks and opportunities.

Zalando created a separate department to identify these at an early stage and to analyze, manage, monitor and counteract them with appropriate measures. The **Governance, Risk & Compliance (GRC) department** continuously develops risk management instruments and the methodology (changes to the methodology are detailed in the "Risk reporting and methodology" section below). This ensures that risks and opportunities are documented throughout the company using a uniform method.

The basis for successful risk management is group-wide standards for systematically handling risks and opportunities. These standards are defined in the GRC Manual and put into force by the Management Board. The GRC function coordinates the defined core process (GRC cycle), which ensures standardized procedures to assess, analyze and report on risks and the management measures implemented. The GRC cycle is designed to support important decisions with consistent, comparable and transparent information.

The GRC function reports to the Management Board on the risk situation on a biannual basis. If critical issues arise, the regular reporting process is supplemented by internal ad-hoc reporting. All employees of Zalando are asked to manage risks in their activities intelligently and prevent risks that could jeopardize the company's ability to continue as a going concern. The **Internal Audit team** reviews the functional capacity and appropriateness of the risk management system regularly. The audit committee set up by the Supervisory Board also monitors the effectiveness of the internal control, risk management and audit systems including interaction with the auditors.

For this reporting period, the layout of the report changed due to the first-time implementation of Zalando's integrated approach. The overall analysis and report also include an evaluation of opportunities, which are taken into account when assessing risks. Furthermore, the description is now based on **individual risks and opportunities instead of aggregated risk clusters** (which had been used for fiscal year 2014). More information on the risk clusters used in the past is provided in section 02.4.4 below. Significant major opportunities are described together with the risks in detail in the section 02.4.5 "Overview of current risks and opportunities" section. Market opportunities and general opportunities are described in a separate section.

In addition to the latest findings from applying this adjusted methodology, an additional assessment using the 2014 risk cluster structure is provided to ensure transparency and to allow the results of the current reporting period to be compared to the prior-year period.

02.4.2 COUNTERMEASURES AND INTERNAL CONTROL SYSTEM

Zalando reviews all identified risks and opportunities at least twice a year to determine whether they are up to date and, in some cases, more frequently depending on their severity. The documentation is updated regularly in the comprehensive risk catalog, which is set up as a **risk control matrix (RCM)**. Relevant countermeasures, controls and responsibilities are assigned to each risk. The adherence and effectiveness of the relevant countermeasures and controls is assessed by the Internal Audit team as part of their scheduled audits for the different functions.

SYSTEM OF INTERNAL FINANCIAL REPORTING CONTROLS

In addition to the overall risk and opportunity management system described above, Zalando has implemented a more detailed system of internal financial reporting controls. Pursuant to section 315 (2) No. 5 HGB ["Handelsgesetzbuch": German Commercial Code], the key features of this system are explained below. It aims to identify, assess and manage all risks that could have a significant impact on the proper preparation of the separate and consolidated financial statements. As an integral component of the accounting and reporting process, the system of internal financial reporting controls comprises preventive, monitoring and investigative control measures in accounting and operational functions which ensure a methodical process for preparing the financial statements. The control system is based on the various company processes that have a significant impact on financial reporting.

These processes and the relevant risk for the financial reporting are analyzed and documented. A cross-process risk control matrix contains all controls, including a description of the control, type of control, frequency with which it is carried out, the covered risk and the person responsible. The control mechanisms implemented affect multiple processes and thus frequently overlap. These mechanisms, among other things, include determining principles and procedures, defining processes and controls, introducing approval and testing plans and guidelines. The group-wide accounting manual provides detailed accounting instructions; the processes for assessing inventories and receivables are central components. The system of internal controls is subject to regular reviews by the Accounting department and modifications resulting from risk workshops conducted by the GRC department or risk-based assessments performed by Internal Audit.



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02.4.3 RISK REPORTING AND METHODOLOGY

To improve transparency, reporting on significant individual risks and opportunities has replaced reporting on aggregated clusters of risks and opportunities.

Zalando has continued to grow and further expand its business. Additionally, **capital resources have improved significantly, mainly as a result of the IPO**. As a result of these developments and as part of the continuous optimization of the risk management system, the thresholds for all risk classes were increased.

We compare the risk classes used in 2014 and in 2015 in the table below.

23 RISK CLASSES

CLASS	LOSS AMOUNT 2014	LOSS AMOUNT 2015
1 (very low)	EUR 0.05m–EUR 0.1m	EUR 0.075m–EUR 0.2m
2 (low)	EUR 0.1m–EUR 0.5m	EUR 0.2m–EUR 1.5m
3 (medium)	EUR 0.5m–EUR 5m	EUR 1.5m–EUR 10m
4 (high)	EUR 5m–EUR 50m	EUR 10m–EUR 75m
5 (very high)	> EUR 50m	> EUR 75m

In addition, risks that exceed EUR 250m are denoted specifically as risks that could jeopardize the company's ability to continue as a going concern.

All risks identified are quantified based on their probability of occurrence and their potential financial impact and entered in the risk catalog (risk matrix). The **probability assessment** is based on a time horizon of one year after the assessment date. The impact assessment is conducted either on a quantitative scale (preferred) or a qualitative scale (alternatively if risks cannot be quantified or qualitative outweigh quantitative aspects). Quantitative classes are based on a scale relating to the potential impact on profit (EBIT). Qualitative classes are based on criteria considering the impact on the company's reputation or the effect of criminal prosecution (with special focus on compliance risks). The risks are presented net, meaning the risk-minimizing measures implemented are considered in the scoring of risks.

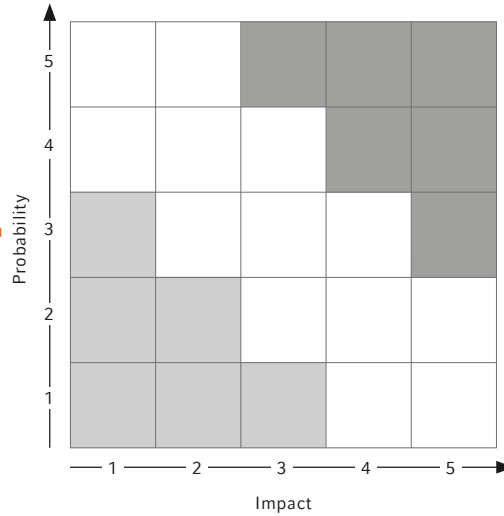
Risks are positioned in the risk matrix according to the following grid:



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24 PROBABILITY OF OCCURENCE (WITHIN THE FOLLOWING YEAR)

CLASS	PROBABILITY	AVERAGE
1	very low (0%–5%)	2.5%
2	low (5%–25%)	15%
3	medium (25%–50%)	37.5%
4	high (50%–75%)	62.5%
5	very high (75%–100%)	87.5%



25 QUALITATIVE IMPACT (ALTERNATIVE)

CLASS	REPUTATIONAL EFFECT	CRIMINAL PROSECUTION
1	very low	very low
2	low	low
3	medium	medium
4	high	high
5	very high	very high

26 QUANTITATIVE IMPACT (PREFERRED)

CLASS	LOSS AMOUNT 2015
1	EUR 0.075m–EUR 0.2m
2	EUR 0.2m–EUR 1.5m
3	EUR 1.5m–EUR 10m
4	EUR 10m–EUR 75m
5	> EUR 75m

02.4.4 FORMER REPORTING STRUCTURE

We reassessed the aggregated risk clusters from 2014 according to the new methodology to ensure comparability between the risk and opportunity report for fiscal year 2014 and the **newly introduced reporting structure**. Changes are presented in the following summary:

27 RISK OVERVIEW

		PROBABILITY		IMPACT		OVERALL CHANGE
1	Economic and strategic risks					
1.1	Overall economic risks	medium	↓	medium	↑	↻
1.2	Competitive risks	low	⊖	medium	⊖	⊖
1.3	Demand risks	low	⊖	low	⊖	⊖
1.4	Risks arising from technological progress and innovation	medium	⊖	high	⊖	⊖
1.5	Marketing risks	low	⊖	high	↓	↓
1.6	Reputation risks	medium	↓	high	↑	↻
2	Operational risks					
2.1	Logistics risks	medium	↓	high	⊖	↓
2.2	Risks arising from the setup of own fulfillment sites	very low	↓	very high	⊖	↓
2.3	Inventory risks	medium	↓	high	↓	↓
2.4	Supplier and partner risks	medium	⊖	medium	⊖	⊖
2.5	IT risks	medium	↓	high	↓	↓
2.6	Personnel risks	medium	↓	high	↓	↓
2.7	Information risks	low	↓	high	↑	↻
2.8	Risks from emergencies and crises (Infrastructure)	very low	⊖	very high	⊖	⊖
2.9	Risks from emergencies and crises (Technology & IT)	very high	↑	medium	⊖	↑
3	Financial risks					
3.1	Default risks	very high	⊖	very high	↑	↑
3.2	Financing and liquidity risks	low	↓	low	⊖	↓
3.3	Currency risks	medium	↑	medium	⊖	↑
4	Legal and regulatory risks					
4.1	Legal risks	medium	↓	high	⊖	↓
4.2	Product quality risks	medium	↓	high	↑	↻

↓ Decrease

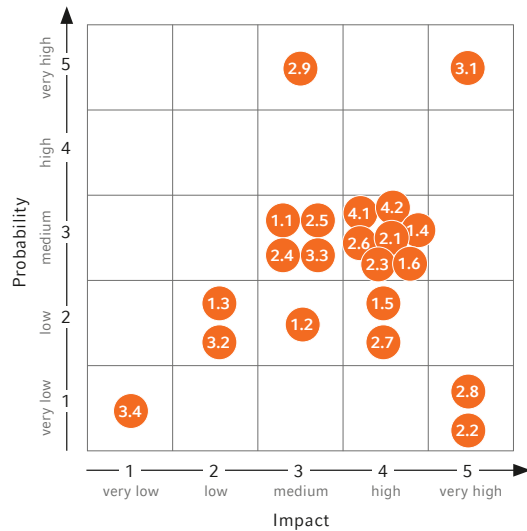
↑ Increase

⊖ No change

↻ Insignificant change

Graphic overview:

19 RISK OVERVIEW – NET RISK MATRIX



After considering the adjustments to the impact classes and the higher level of revenue, there were slight adjustments to the risk assessment in some cases. Furthermore, improved countermeasures led to lower risk assessment in several cases.

All individual risks that were considered previously in the risk clusters above are described in the following section if they were classified as significant. This [detailed risk-by-risk description](#) replaces the former cluster-based breakdown.

02.4.5 OVERVIEW OF CURRENT RISKS AND OPPORTUNITIES

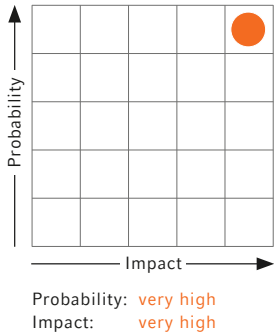
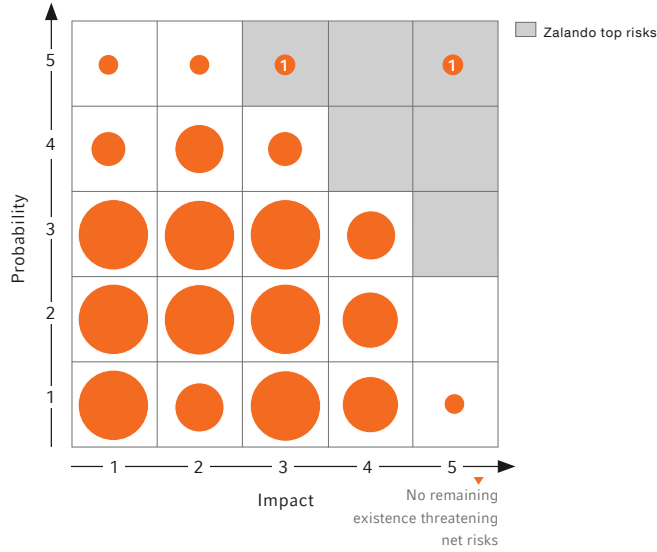
In general, it cannot be ruled out that potential risks which are currently unknown or considered to be insignificant at present may negatively impact business in the future. Despite all countermeasures implemented to manage the identified risks, residual risks for all corporate activities that cannot be completely eliminated by a comprehensive risk management system still remain. Altogether, the risks are to be regarded as customary to online retail business.

There are [currently no net risks assessed that would jeopardize the company's ability to continue as a going concern](#). Nevertheless, we deem two risks as significant (top risks described below).

RISKS WITH HIGH PROBABILITY AND HIGH IMPACT (TOP RISKS)

Based on the **net risk** view, risks are defined as top risks if they have a high probability and high impact (denoted with a grey-shaded area in the matrix).

20 NUMBER OF NET RISKS



RISKS FROM BAD DEBTS / EXTERNAL FRAUD

The default risk is the risk that customers’ do not fulfill their contractual obligations and receivables remain unpaid. This can be the result of customers’ payment habits or financial situation, or can be the result of fraud. An increase in fraudulent activities may also lead to an increase in bad debts.

Overall, the default risk is distributed differently across the various countries, regions and cities. The probability of occurrence varies for the different payment methods that Zalando offers its customers. To detect and prevent payment default and fraud early on, **Zalando has a comprehensive payment and fraud management system in place.** In addition, write-downs for trade receivables are recognized to a sufficient extent.

The risk remains significant as Zalando is not able to prevent attempts at fraud and new fraud patterns with serious damage may arise. We closely monitor future trends and continuously improve the payment processes.

RISKS WITH FOCUS ON TECHNOLOGY

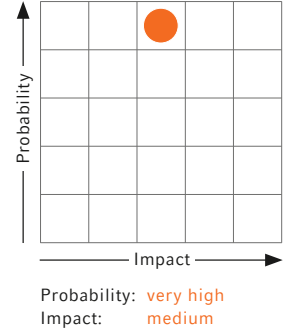
As an e-commerce company, Zalando is extremely dependent on the functionality and stability of various online sites. Disruptions or outages would lead directly to revenue losses. The risk of unstable IT systems also applies to merchandise management and logistics. Interrupted workflows or inconsistent updates of stocks may also result in considerable short-term revenue losses.

We use configuration management, application management and automated tests as essential countermeasures of managing the risk. Furthermore, Zalando uses monitoring systems and establishes and documents incident management processes. A risk management system has been implemented for applications and systems. Outsourced services (e.g., data center) are integrated in the monitoring processes and adequate service level agreements are concluded.

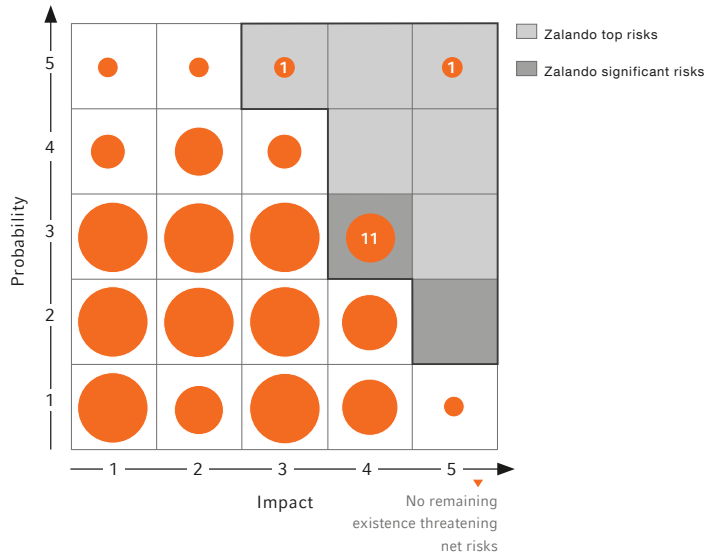
EXPANDED RISK AND OPPORTUNITY AREA

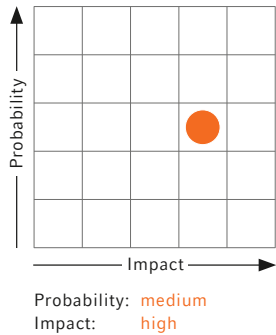
Risks and opportunities in the dark grey margin as shown in the matrix are considered to be significant risks due to the combination of certain level of probability and a certain level of impact.

These significant risks pertain to:



21 NUMBER OF NET RISKS

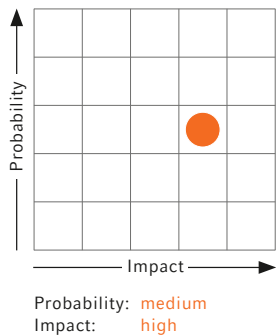




RISKS FROM INEFFICIENT INTERNAL PROCESSES AT FULFILLMENT CENTERS

Risks from inefficient internal fulfillment processes in fulfillment centers can lead to excessive fulfillment costs and delivery delays, which, in turn, may adversely affect customer satisfaction. The major challenge is the coordination of the interaction between technology and people.

Optimization projects and project teams have been set up to improve fulfillment processes. The established Process Improvement team and Innovation team have made adjustments in operational workflows, the site organization, as well as utilized software. As an additional measure, the Process Improvement team coordinates the standardized continuous improvement process. Furthermore, we conduct quality process audits three times a year in order to review the processes and the respective measures implemented.



RISKS FROM INACCURATE PERSONNEL AND CAPACITY FORECASTS FOR FULFILLMENT CENTERS

Risks may result from inaccurate personnel and capacity planning for fulfillment centers as a result of underlying inaccurate planning or forecasts of sales/incorrect budgets. Resulting capacity overloads may lead to cost intensive measures to resolve backlogs, and a decrease in customer satisfaction should this result in delivery delays. Excess capacity may result in alternative costs that could have been avoided.

Zalando has implemented numerous measures to optimize capacity utilization for single warehouse locations as well as across warehouses including. These comprised among other things:

- Continuous planning
- Shifting resources from inbound to outbound processes and vice versa at warehouses
- Shift capacity utilization between warehouse locations
- Redirecting returned articles to other warehouse locations or service providers
- Utilizing flexibility options of employed personnel (e.g., reduce/allow overtime)

RISK OF STRIKE

Risks may emerge from strikes by workers in the operational functions. The risk depends on various internal and external factors, including the satisfaction of employees as well as union activities regarding the industry as a whole or Zalando in particular. Strikes can lead to costly backlogs and delays, as well as to increased fulfillment costs.

Zalando invests in good relationships with its employees and constructive exchanges to improve the work environment and conditions, including:

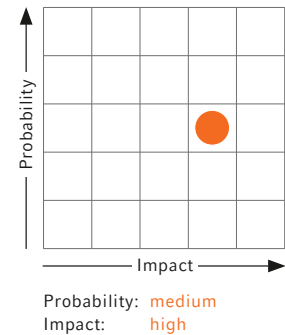
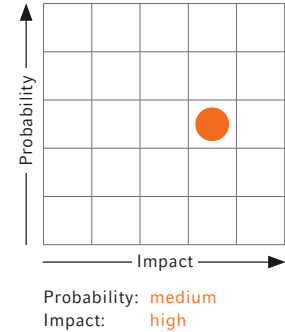
- Supporting the foundation of work councils at fulfillment centers (currently established in Brieselang and Erfurt and a joint work council for both warehouses) and continuous communication to improve the working atmosphere
- Intensified internal communication in fulfillment
- Regularly audited social standards to ensure the quality of working conditions

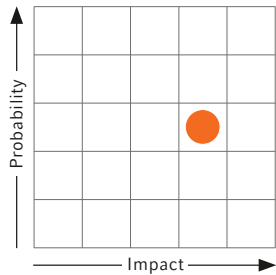
RISKS FROM INACCURATE FORECASTS AND PLANNING WITHIN CATEGORY MANAGEMENT

Risks may arise due to insufficient coordination of the higher-level sales and sourcing planning. A lack of coordination and changes of plans may lead to planning errors. Furthermore, there is a risk that forecasts may be incorrect, meaning that predetermined budgets were calculated inaccurately. This, in turn, could lead to unfavorable sourcing activities.

In Category Management Zalando has set up a planning process on a rolling basis, which is carried out twice a year with regular updates during the seasons. The process is supported by analyses from category controlling and the data intelligence team. Basic planning is prepared by the teams responsible for country clusters in cooperation with the individual Category Management teams and brought into line with the higher level category management planning.

The product-specific sales risk is countered through continuous sales analysis and budget planning. Zalando uses a detailed indicator system to identify negative discrepancies at an early stage and to implement the appropriate measures in order to monitor and manage the sales and stock levels. Additional flexibility can be achieved through follow-up orders. In addition, Zalando recognizes write-downs on inventories to a sufficient extent. The inventory risk is an inherent risk of our business model and manifests itself along the entire value chain.



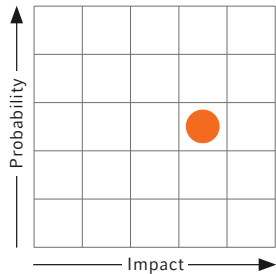


Probability: **medium**
Impact: **high**

RISKS FROM HAZARDOUS MATERIAL / CONDITIONS IN PRODUCTION WITH REGARD TO PRIVATE LABELS

The use of, e.g., banned chemicals in the production process or ineffective fire prevention measures at production locations may lead to a risk of personal injury of workers in factories and may negatively impact Zalando's reputation in such risks eventuate. In addition, this is likely to result in loss of revenue.

To be able to choose partners which meet our safety standards, the focus of the implemented countermeasures lies on creating transparency and adhering to our requirements (e.g., Factory Compliance Manual, General Instructions, Code of Conduct). Measures, such as focused on-site audits and Zalando's Factory Improvement Program support this objective.



Probability: **medium**
Impact: **high**

RISKS DUE TO SAFETY DEFICIENCIES ON SOLD PRODUCTS WITH REGARD TO PRIVATE LABELS

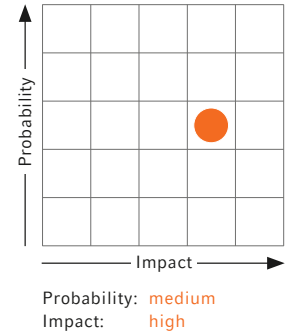
The delivery of goods in perfect condition is critical to the success of the company. Product recalls, product liability cases and social responsibility violations can adversely affect the company's reputation.

Zalando manages the risk of potential quality problems through continuous inspections, careful selection of our partners, suppliers and manufacturers, as well as by cultivating long-term relationships. In addition, the quality management process for Zalando's private labels was revised in cooperation with independent testing institutes. A comprehensive testing plan has been established. The tests are primarily conducted directly at the manufacturer's site immediately after production. Chemical tests are conducted at specialized testing laboratories.

RISKS OF MISSED OPPORTUNITIES FROM DEFICIENT BRANDING OF PRIVATE LABELS

Insufficient branding and a non-uniform brand image may lead to losses as customers might no longer “identify” with one single brand. The revenue increase expected from a strong brand image and the associated cost-savings from higher production volumes are the key factors in the assessment of this opportunity.

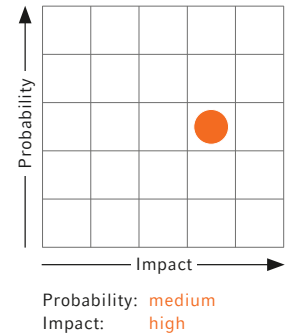
The respective brand teams allocate appropriate items selected from the entire product range to each brand to create a unique brand image. To enhance the marketing activities for the various brands appropriately, targeted customer analyses were performed to support the associated decision-making. Moreover, there is daily communication between the marketing teams and content departments regarding core brands on social media.



RISKS FROM A SUDDEN LACK OF A “STATE OF THE ART” SHOP AND SERVICE

In order to meet the rising and changing demands on contemporary products and service and to realize market opportunities, we must constantly make rapid, innovative and appropriate adjustments. Neglecting the necessary measures or inadequate implementation of such measures can lead to customer migration away from the brands, followed by significant revenue losses.

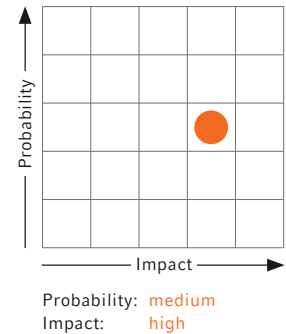
A significant overarching countermeasure is the establishment of the Onsite Experience team. The team coordinates the relevant adjustments with stakeholders and ensures the continuous development of the shop.

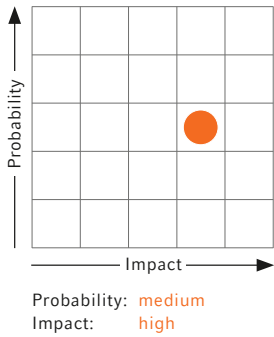


RISKS FROM SCARCITY OF RESOURCES AT FULFILLMENT CENTERS

Business growth risks may stem from insufficient human resources for the further development of existing fulfillment centers.

We consider the appropriate availability of human resources in the planning phase of fulfillment centers. Additionally, strategic human resource measures are performed (referred to collectively as the employer branding fulfillment strategy).



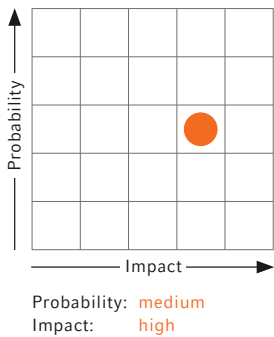


RISKS FROM ZALANDO'S LACK OF INNOVATION CAPABILITIES OR MISSED PRODUCT INNOVATIONS

The company's ability to implement innovations and future market trends is essential for sustainable success. It is also essential to recognize and analyze trends and innovation opportunities, which, if missed, might lead to a loss of market share or reduced competitiveness.

To counteract this risk, we have implemented the following significant measures:

- Defined a long-term strategy to support product innovations (e.g., Zalando's platform strategy)
- Realized measures to ensure innovativeness (e.g., implement an innovative concept of agile software development, optimization of Zalando's system architecture)
- Prioritized projects concerning customer benefit and use information from market and customer research



RISKS FROM A LACK OF MARKET KNOWLEDGE, PURCHASING AND NEGOTIATION CAPABILITIES WITHIN INDIRECT PROCUREMENT

Inadequate management of demand/specifications (for products/services to be purchased), inadequate market analysis or lack of market knowledge (e.g., local sourcing vs. global sourcing) or inadequate skills on the part of the purchasing officers may result in poor decisions in the selection of suppliers, goods and services. This may cause financial and reputational damage.

The result of the risk evaluation is mainly driven by the fact that high cost savings (=opportunity) from expanding the Indirect Procurement function are expected.

The key countermeasures in this regard is strategic sourcing by specialized lead buyers in the respective departments or by the lead buyer and sourcing manager of the Indirect Procurement team in line with defined processes.

FINANCIAL RISKS

Furthermore, Zalando is required to describe its financial risks pursuant to section 289 (2) No. 1b HGB.

In the course of its ordinary activities, Zalando is exposed to credit risks, liquidity risks and market risks (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. Derivative financial instruments are used solely for the purpose of risk management.

DEFAULT RISKS

The default risk mainly originates from trade receivables (this is one of top risks) and, to a lesser extent in terms of probability of occurrence, from claims originating from financial contracts with other parties, e.g., short-term deposits and derivative financial instruments.

The company only concludes derivative financial instruments and invests surplus cash with counterparties with excellent credit ratings. Furthermore, the company sets maximum investment amounts and concludes global netting agreements in order to minimize the default risk.

FINANCING AND LIQUIDITY RISKS

Zalando counters the risk of not raising sufficient funds with a diversified cash management. Sufficient cash as well as free credit lines ensure that the group is in a position to meet its payment obligations at all times and has access to sufficient cash and cash equivalents for investments. In addition, the company utilizes instruments such as reverse-factoring agreements to manage liquidity.

CURRENCY RISKS

As a rule, there is a currency risk for revenue generated in foreign currency and for sourcing transactions carried out in foreign currency. This is countered by natural and contractual hedges. 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 and to hedge from forecast revenue.

These are recognized as cash flow hedges if the conditions of hedge accounting are fulfilled. Once the hedged item has been realized as a cash flow hedge, the forward exchange contracts are used as fair value hedges to compensate for market value fluctuations of the outstanding trade receivables and trade payables and similar liabilities denominated in foreign currency. Forward exchange contracts are concluded with a term not exceeding 12 months.

Derivative financial instruments are concluded and processed in accordance with internal guidelines that set out binding rules for the scope of action, responsibilities, reporting and controls.

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 current exchange rates and sensitivity rates. The difference between these measurements represents the effects on earnings and equity.

The effects are analyzed on a regular basis. For example, if the euro had appreciated by 5% against the foreign currencies as of December 31, 2015, earnings before taxes would have been EUR 5.4m lower (prior year: EUR 4.7m). If the euro had depreciated 5% compared with the exchange rate as of December 31, 2015, earnings before taxes would have been EUR 6.0m higher (prior year: EUR 5.9m). The reserve for derivatives in group equity would have been EUR 11.8m higher (prior year: EUR 5.0m higher) if the euro had appreciated 5% compared with the exchange rate as of December 31, 2015. This reserve would have been EUR 13.1m lower (prior year: EUR 5.3m lower) if the euro had depreciated 5%.

Although the effects from the change in exchange rates offset each other to some extent, e.g., the cost for goods invoiced in foreign currency increase due to the weak euro, while the translated income from the sale increases on the other side, Zalando regards this risk as medium due to the potential financial impact that is not hedged in full despite a low probability of occurrence.



SKIP TO P. 123

MARKET OPPORTUNITIES AND GENERAL OPPORTUNITIES

MACROECONOMIC DEVELOPMENT

Economic projections about the 2016 development in the euro zone assume growth above 1% compared to prior-year figures. Private consumption is expected to be one of the main drivers of the growth during the forecast period. Experts believe that the disposable income in real terms will increase at a similarly steady pace, due to only slight increases in inflation and positive signals from job markets across important European economies.²³

An upward trend is also forecast for Germany. Similar to the Rest of Europe, strong employment levels and a noticeable increase in wages and salaries coupled with low inflation should drive private consumption that will translate into further growth.²⁴ These developments give Zalando the opportunity to capitalize on a potentially favorable consumer climate arising from the growing economy and further reinforce its market position and increase revenue.



CORPORATE STRATEGY P. 10

GROWING FASHION MARKET IN EUROPE

The fashion market in Europe (excluding Russia) is large, with consumer expenditure of around EUR 417bn in 2015. Online fashion sales made up roughly EUR 46bn of this total. This represents a relative share of approximately 11% of all fashion retail.²⁵ The overall market for fashion in Europe (excluding Russia) remained virtually unchanged between 2010 and 2015, while online fashion sales grew at a considerably faster rate with average annual growth (CAGR)²⁶ of approx. 16% between 2010 and 2015.²⁷ This trend is forecast to continue, as the percentage of people in the overall population who are already familiar with digital technology at a young age will continue to rise.

Europe is a highly attractive fashion market with concentrated wealth and a high population density. These factors work to the advantage of online fashion sales. Thanks to its penetration of European markets as well as the infrastructure and the brand awareness achieved in the meantime, Zalando is well positioned to benefit from these favorable market conditions.

The online retail market in Europe (excluding Russia) reported revenue totaling EUR 244bn in 2015, with a CAGR of 16% since 2010. While the online share of retail trade in the United States came to 9.3% in 2015, the online share of retail trade in Zalando's target market, Europe (excluding Russia), rose from 3.8% in 2010 to 7.2% in 2015.

The consistent focus of the business model on e-commerce combined with a product range tailored to market needs and a consistent customer focus offers Zalando an opportunity to further increase its revenue and market share. Using targeted marketing activities, Zalando seeks to increase its brand awareness, win new customers and retain existing ones for the long term. The strategic realignment as a platform offers Zalando new, more extensive growth opportunities. Moreover, Zalando can continue to exploit the high online market potential for European fashion through its presence, which now extends to 15 European countries, and the constant expansion of its own product range and other brands.²⁸

23) DIW (Deutsches Institut für Wirtschaftsforschung e.V.), DIW Economic Bulletin 50–52.2015, p. 655 f.)

24) Ifw Kiel: Kieler Konjunkturberichte No 14 (2015/Q4), Deutsche Konjunktur im Winter 2015 (German only)

25) Euromonitor International

26) CAGR stands for "Compounded Annual Growth Rate" and refers to the year-on-year growth rate over a specific period of time. The compounded annual growth rate is calculated by taking the nth root of the total percentage growth rate, where n is the number of years in the period under review

27) Euromonitor International

28) Euromonitor International

MOBILE COMMERCE

Mobile devices have made a considerable contribution to the strong growth in online retail trade. This also applies to fashion sales, as customers have access to fashion products at any time and from virtually anywhere. Retail sales generated by mobile devices have grown strongly in Western Europe, from roughly EUR 3.8bn in 2011 to almost EUR 47bn in 2015. It is anticipated that this revenue will grow at an annual average growth rate of 18% to reach EUR 106bn in 2020.²⁹

Mobile devices provide Zalando additional ways of connecting with customers. Zalando can now offer its customers in all international markets a mobile shopping experience on any of the main operating systems. Zalando apps are not a simple adaption of the Fashion Store but have been designed and structured from scratch. Most users access Zalando products and services several times a day via mobile devices. This implies that apps have become increasingly important. This offers an opportunity for Zalando to expand its revenue potential via mobile devices. To fully exploit this opportunity, Zalando is evolving into a Mobile First company in all respects.

SCALABLE LOGISTICS

The scalable logistics infrastructure is currently composed of three fulfillment centers in Brieselang, Erfurt and Mönchengladbach, which are strategically positioned within Germany to efficiently supply customers throughout Europe. A fourth fulfillment center in Lahr, southern Germany is currently under construction. Here Zalando has once again undertaken all the development work for the fulfillment center itself. This location in southern Germany is intended to follow the rising demand of customers and increase Zalando's capacity. Not only customers in southern Germany will profit from the new location in Lahr but also customers in France and Switzerland. In addition, another fulfillment center operated by a service provider was opened in Italy in December, from which customers in Italy can be served more rapidly. According to Zalando's estimates, approximately 65% of the European population and around 85% of Zalando's active customers live within a radius of 750km (or a nine-hour truck drive) from the existing three fulfillment centers. With floor space of 290,000m², the current fulfillment centers make it possible to process higher revenue volumes than in fiscal year 2014.

INNOVATIVE LOGISTICS

Zalando successfully organizes its logistics solutions itself. The underlying concept involves identifying any ways of making the shopping experience for customers even easier and more comfortable. Zalando's logistics concept therefore constitutes a unique selling proposition.

The continuous improvements to the logistics infrastructure and its processes are directly related to greater customer satisfaction and provide a means by which to achieve a competitive edge.

This also opens up new business fields. There are plans within the framework of the platform strategy to also offer Zalando's logistics services to third parties. This requires centralized coordination of the highly complex fashion network with the IT network and development of a toolbox that provides benefits to all partners of the platform and ultimately the customers as well.



FURTHER INFORMATION
CORE CAPABILITIES P. 34



FURTHER INFORMATION
CORE CAPABILITIES P. 36

SMART DATA

Zalando collects data and uses its internally developed analytical tools to optimize every aspect of the business. Data analyses are used, for example, to forecast demand, set country-specific pricing or to customize the product range. This approach provides insights that can yield significant strategic benefits. Furthermore, with the aid of the data gathered, Zalando develops applications that enable all business units to constantly optimize their business processes.

The extensive reach of Zalando shops and mobile applications can be used by Zalando to win in-depth knowledge of user behavior. This knowledge enables the labels to efficiently place the relevant advertising offers to their target groups. Zalando can provide its brand partners with tailored advertising with which they can address their target markets not only in the Fashion Store but also on relevant third-party websites. By building up this expertise, Zalando can realize additional revenue potential and expand its field of business. After taking over Metrigo GmbH in 2015, a specialist for display marketing banners and real-time bidding, as well as nugg.ad GmbH at the beginning of 2016, a specialist for targeted marketing, Zalando has already invested in this field to further optimize its marketing capabilities.



FURTHER INFORMATION
CORE CAPABILITIES P. 33

INNOVATIVE TECHNOLOGY

Technology is a core competence at Zalando. It is the foundation on which all platform products are based and underlies almost all business processes. Technologies are being constantly refined and offer a lot of room for innovation. Zalando puts a constant focus on the needs of its customers and partners.

For example, in cooperation with its brand partners, Zalando opened over 1,000 individual brand shops in 2015 at which visitors can shop as if in an online flagship store. The brands interact directly with the customers, manage their picture and text content by themselves and obtain detailed insight into the browsing and shopping behavior of their customers. The Fashion Store was extended to incorporate practical features such as Shop the Look or Trend Shop, which enable customers to put together outfits that harmonize with each other instead of ordering individual items. The Zalando Lounge app offers additional functions, such as calendar entries or push messaging, to inform customers of the start of any campaigns. By acquiring a stake in Anatwine in 2015, Zalando has won a strong partner in technological solutions to connect marketplace partners to the platform more simply and effectively.

The development of technological expertise and innovations facilitates not only the optimization of business processes, but also the ability to discover and exploit additional synergies and sales potential. Zalando intends to further consolidate its position as a technologically driven company and innovator that constantly addresses the needs of its brand partners and the available avenues to inspire buyers of fashion again and again.

LOCAL ALIGNMENT

Adapting Zalando's product range to meet local demand is a key factor in offering Zalando customers a stimulating and convenient shopping experience. This is critical for the group to succeed in the heterogeneous European market with its diverse regional tastes.

Zalando has developed various online offerings that are tailored to the local demands of customers. This also includes country-specific product ranges, an assortment in the online catalog that is tailored to local demands, visual marketing that is in line with local conditions, local payment methods and fulfilment options. This country-specific alignment and a stronger adaptation to local customer needs sets Zalando apart from other companies. At the same time, the group uses a central platform and infrastructure for purchasing merchandise, its fulfillment and technology for all of Europe. This approach offers opportunities to benefit from economies of scale, which in turn distinguishes Zalando from smaller, locally operating competitors.

FASHION EXPERTISE

Consumers tend to move towards those shops offering the best selection and the relevant trends. Meeting this challenge requires bundled fashion expertise. To prevail over the competition, Zalando has systematically developed these skills in a number of different ways.

In this context, Zalando introduced the Zalon consulting service in 2015 which offers customers fashion advice and inspiration directly from selected stylists when making their purchases.

With its internally designed labels, Zalando offers products whose life cycle is managed under one umbrella from the design phase right through to sale. Zalando has succeeded in creating popular brands that now have a loyal customer base.

To remain at the cutting edge, Zalando's trend scouts intensively search the markets and fashion centers to predict and even set the trends for the coming season.

AN ATTRACTIVE PARTNER

Fashion brands value Zalando as a strategic partner because the group offers them direct access to the large European fashion market, a high number of site visitors, an in-depth insight into customer buying habits and a clear focus on fashion. The platform lets them present their brands in an appealing way. The size and rapid growth of business have resulted in a self-reinforcing network effect: the frequency of visits to Zalando's online platform is extremely attractive for its brand partners, giving Zalando access to still more brands and greater choice in selecting its products. The wide selection of brands and products in turn helps the company reach and win over new customers. This, in turn, increases the number of visitors on the group's websites.

With more than 150,000 products from more than 1,500 brands, Zalando offers its customers a wide choice of appealing fashion items. Sourcing teams work continuously with the brand partners to select attractive fashion products. As a result, around 1,000 new products are added to the online assortment on a daily basis, which keeps the selection constantly up-to-date and gives customers an incentive to discover new trends. The strong partnerships with fashion brands make it possible to not only offer a choice of major international brands but also brands tailored to local preferences. Zalando can respond quickly to new trends thanks to the fast fashion brands in its assortment. Fast fashion products also offer the advantage of shorter lead times and greater flexibility. Finally, Zalando has developed its own private labels that expand and enhance the assortment across all price categories.



FURTHER INFORMATION
BRAND AND MERCHANT
PRODUCTS P. 24

PERSONNEL OPPORTUNITIES

Zalando's successful growth is based on the competencies and motivation of its employees. Due to the considerable growth of its core business, the penetration of new business areas and the rapid international expansion, Zalando constantly needs to strengthen its winning team. Recruiting therefore plays a key role in human resources work. Recruiting highly skilled employees can help boost efficiency and foster innovation and creativity, thus increasing revenue and profitability.

02.5 OUTLOOK



WWW.EUROMONITOR.COM

02.5.1 FUTURE OVERALL ECONOMIC AND INDUSTRY-SPECIFIC SITUATION

European online retail is expected to see continued strong growth. For example, the European retail industry is expected to achieve year-on-year growth of just above 1% in 2016, while online retail is expected to grow over 10%. The picture in Germany is similar. Retail is forecast to grow roughly 1% in 2016, whereas **internet trade is expected to increase by over 11%**.³⁰

The total fashion industry in Europe and Germany is expected to have another rather weak year in 2016. Fashion sales in Europe are expected to stagnate (growth of 0.3% to the prior year), while fashion sales in Germany are even expected to decline slightly (decline of 0.2%).³¹ In contrast, online fashion sales are expected to grow significantly faster in Europe and in Germany. Online fashion sales in Europe are expected to increase by approximately 8% in 2016, while predictions for Germany assume that the market will grow by almost 9% compared with the previous year.³²

With the development of e-commerce models and the increasing openness of consumers for online shopping, Zalando expects the online fashion share to continue to grow strongly in 2016.

Due to its focus on the European market, its strong brand awareness, large customer base, strong brand relationships and its leading technology and fulfillment infrastructure, **Zalando is convinced that it is well positioned to benefit from these favorable market conditions for online sales**. The high emotional factor that both brands and customers associate with fashion also provides independent and purely fashion e-commerce retailers, like Zalando, with a considerable edge compared to non-specialized e-commerce retailers.

³⁰ Euromonitor International, retail segment including grocery retailers

³¹ Euromonitor International

³² Euromonitor International, forecast of online fashion includes apparel, footwear, personal accessories, eyewear and writing instruments