# Annual Report 2021

zalando

# Zalando at a glance

Key figures

| | Jan 1 – Dec 31, 2021 | Jan 1 – Dec 31, 2020 | Changes |
|---|---|---|---|
| **Key performance indicators** | | | |
| Gross Merchandise Volume (GMV) (in EUR m) | 14,348.4 | 10,696.0 | 34.1% |
| Revenue (in EUR m) | 10,354.0 | 7,982.0 | 29.7% |
| EBIT (in EUR m) | 424.7 | 367.0 | 15.7% |
| EBIT (as % of revenue) | 4.1 | 4.6 | –0.5pp |
| Adjusted EBIT (in EUR m) | 468.4 | 420.8 | 11.3% |
| Adjusted EBIT (as % of revenue) | 4.5 | 5.3 | –0.7pp |
| Net working capital (in EUR m) | –162.1 | –87.4 | –85.4% |
| Capex (in EUR m) | –332.9 | –250.0 | 33.2% |
| Site visits* (in millions) | 7,461.3 | 5,393.6 | 38.3% |
| Active customers (in millions) | 48.5 | 38.7 | 25.3% |
| Number of orders (in millions) | 252.2 | 185.5 | 35.9% |
| Average GMV per active customer (in EUR) | 295.8 | 276.3 | 7.1% |
| Average orders per active customer | 5.2 | 4.8 | 8.5% |
| Average basket size (in EUR) | 56.9 | 57.7 | –1.3% |
| **Other key figures** | | | |
| Equity ratio (as % of total assets) | 32.2 | 33.1 | –0.9pp |
| Cash flow from operating activities (in EUR m) | 616.2 | 527.4 | 16.9% |
| Cash flow from investing activities (in EUR m) | –335.9 | –217.8 | –54.2% |
| Free cash flow (in EUR m) | 283.2 | 284.5 | –0.5% |
| Cash and cash equivalents (in EUR m) | 2,287.9 | 2,644.0 | –13.5% |
| Employees (as of the reporting date) | 17,043.0 | 14,194.0 | 20.1% |
| Basic earnings per share (in EUR) | 0.91 | 0.90 | 1.1% |
| Diluted earnings per share (in EUR) | 0.88 | 0.86 | 2.3% |

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

**More than** 48m

active customers

**More than** 17,000

employees from more than 140 nations

**More than** 5,800

brands

# Zalando.

# The Starting Point for Fashion.

In 2019, we communicated our vision to be the Starting Point for Fashion. Zalando enjoys tremendous growth and is viewed as the major success story in European e-commerce today. But we won't stop here: It is our goal to be the one destination that customers naturally gravitate to whenever they think about fashion. This year we have again made great strides in growing our active customer base, building deeper customer relationships, transitioning towards a platform business and building a truly sustainable fashion and lifestyle platform.

We expanded into six new European markets in 2021, and our teams are already working on delighting customers in further European markets. Alongside the geographic growth, we have added and are developing more logistics sites across Europe that allow us to offer our customers an even higher level of convenience by shortening delivery times. We deepened the relationship with customers through our Sephora partnership, offering Zalando customers access to one of the world's most relevant beauty selections online. The growth of our partner business through Partner Program and Connected Retail has significantly enlarged our product offering for consumers and also increased the contribution of partners to our GMV (Gross Merchandise Volume). When it comes to important conversations around sustainability, we significantly invested in understanding the needs and challenges of our customers, publishing a report that identifies where expectations disconnect from actions, a gap that we aim to close through our various initiatives.

Looking forward, we still have an immense opportunity ahead of us. We aim to triple Zalando's 2020 GMV by 2025 to more than EUR 30bn, as well as serve more than 10% of the European fashion market, valued at around EUR 450bn, in the long term. Next to continued investments in improving and innovating our customer experience and partner services as well as in building and scaling our logistics and technology infrastructure, we also consider moving towards a platform business model — aiming for 50% of GMV to be contributed by partners by 2025 — as a key enabler for achieving continued strong growth.

Over the next pages, read more about Zalando's 2021 progress and how key strategic initiatives are helping us to follow through on our vision and to achieve our goals.

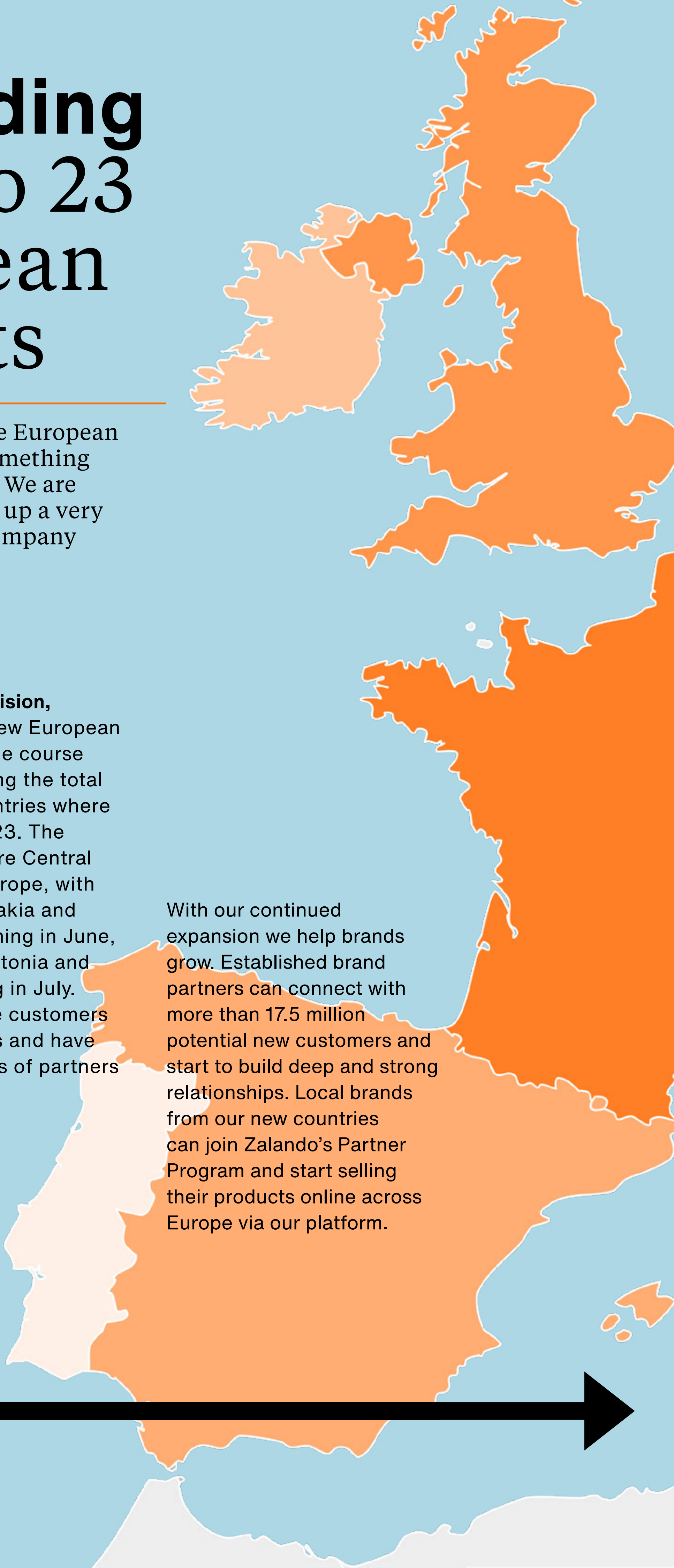
# Expanding from 17 to 23 European markets

"Zalando is a child of the European single market. This is something that I feel very proud of. We are proof that you can build up a very sizable and impactful company based out of Europe."

**Robert Gentz**
Co-CEO, ZALANDO SE

**As part of our vision,** we added six new European markets over the course of 2021, bringing the total number of countries where we operate to 23. The focus areas were Central and Eastern Europe, with Lithuania, Slovakia and Slovenia launching in June, and Croatia, Estonia and Latvia following in July. We now service customers in 19 languages and have gained new sets of partners and customers.

With our continued expansion we help brands grow. Established brand partners can connect with more than 17.5 million potential new customers and start to build deep and strong relationships. Local brands from our new countries can join Zalando's Partner Program and start selling their products online across Europe via our platform.



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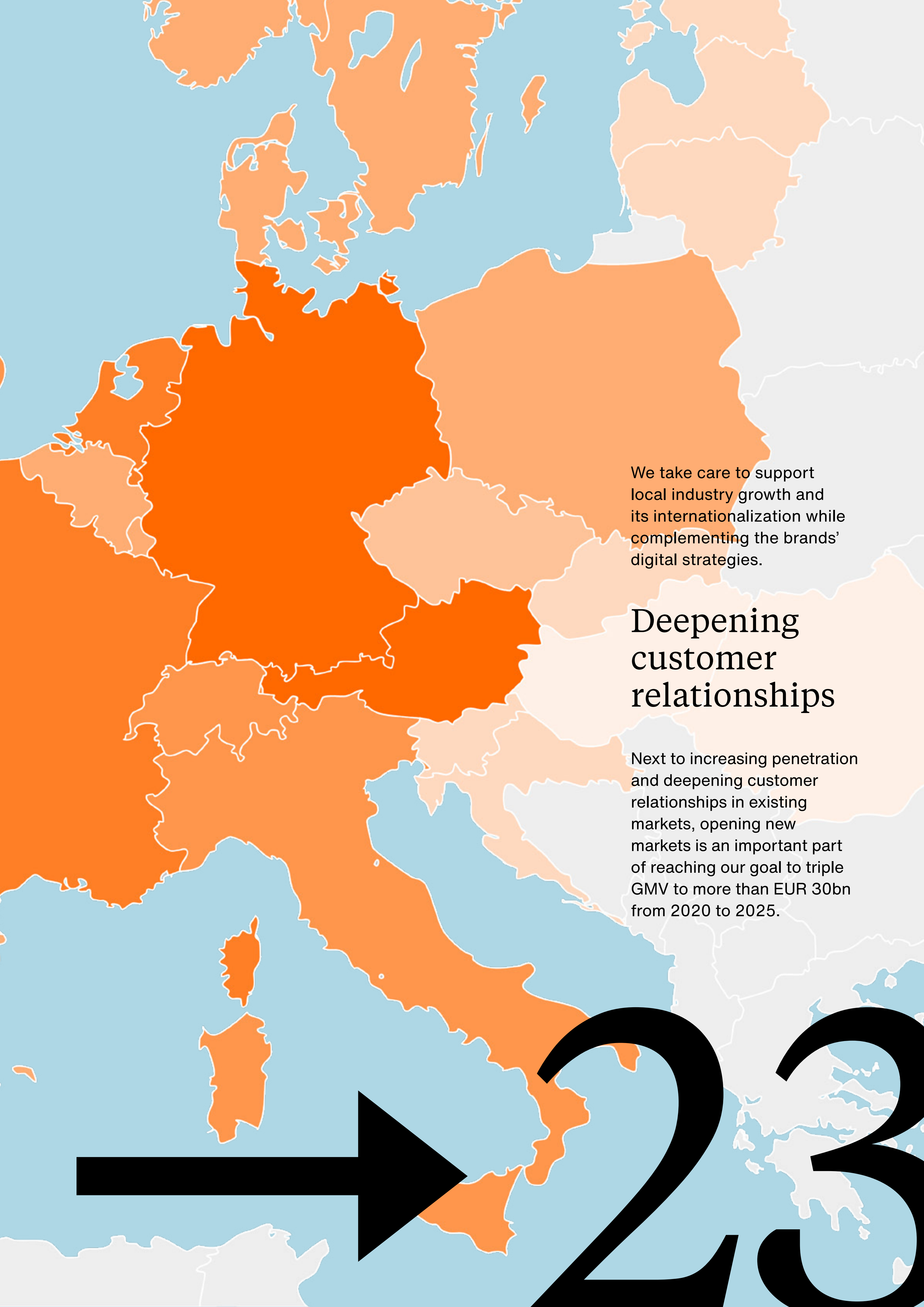


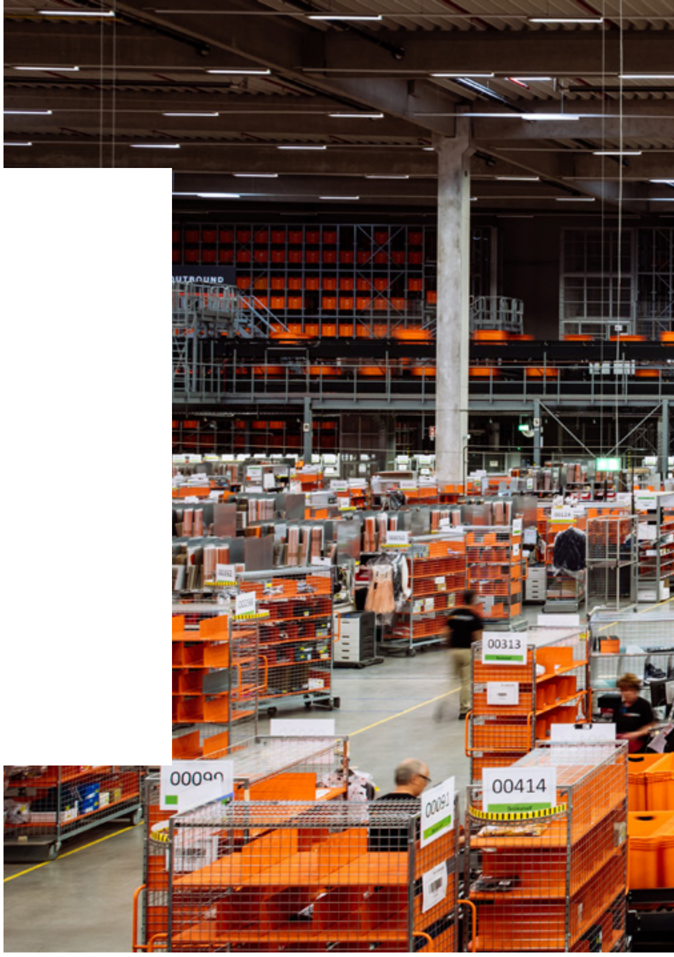
We take care to support local industry growth and its internationalization while complementing the brands' digital strategies.

# Deepening customer relationships

Next to increasing penetration and deepening customer relationships in existing markets, opening new markets is an important part of reaching our goal to triple GMV to more than EUR 30bn from 2020 to 2025.

→ 23

# Getting closer to customers with new logistics sites




**Zalando's first logistics operation in 2008** was run out of an apartment in Berlin's Torstrasse. In 2012, we laid the foundation for creating the leading European logistics network for fashion and lifestyle products. Our proprietary network has now grown to 12 sites across seven countries, and we continue to invest heavily to enable our future growth ambition. To serve customers with a best-in-class convenience proposition, we plan to open at least seven new fulfillment centers by 2025. In 2021, we saw the opening of two new logistics sites, as well as the announcement of four more locations, which together represent the creation of around 8,000 new jobs.

In March 2021, Zalando opened a fulfillment center in Spain. Fully operated by DHL, it is set to create 600 jobs in the Madrid area. The 37,500 m² location reduces delivery times for Spanish customers by 1 to 1.5 days.

An even larger logistics site opened in the Netherlands — currently the largest in our European logistics network at 140,000m² — where we shipped our first parcel from in December. The site in Bleiswijk, near Rotterdam, is operated by our logistics partner Ingram Micro and will enable greater share of next-day delivery, and eventually same-day delivery in the Benelux markets. It is expected to create 1,500 jobs.

**12**

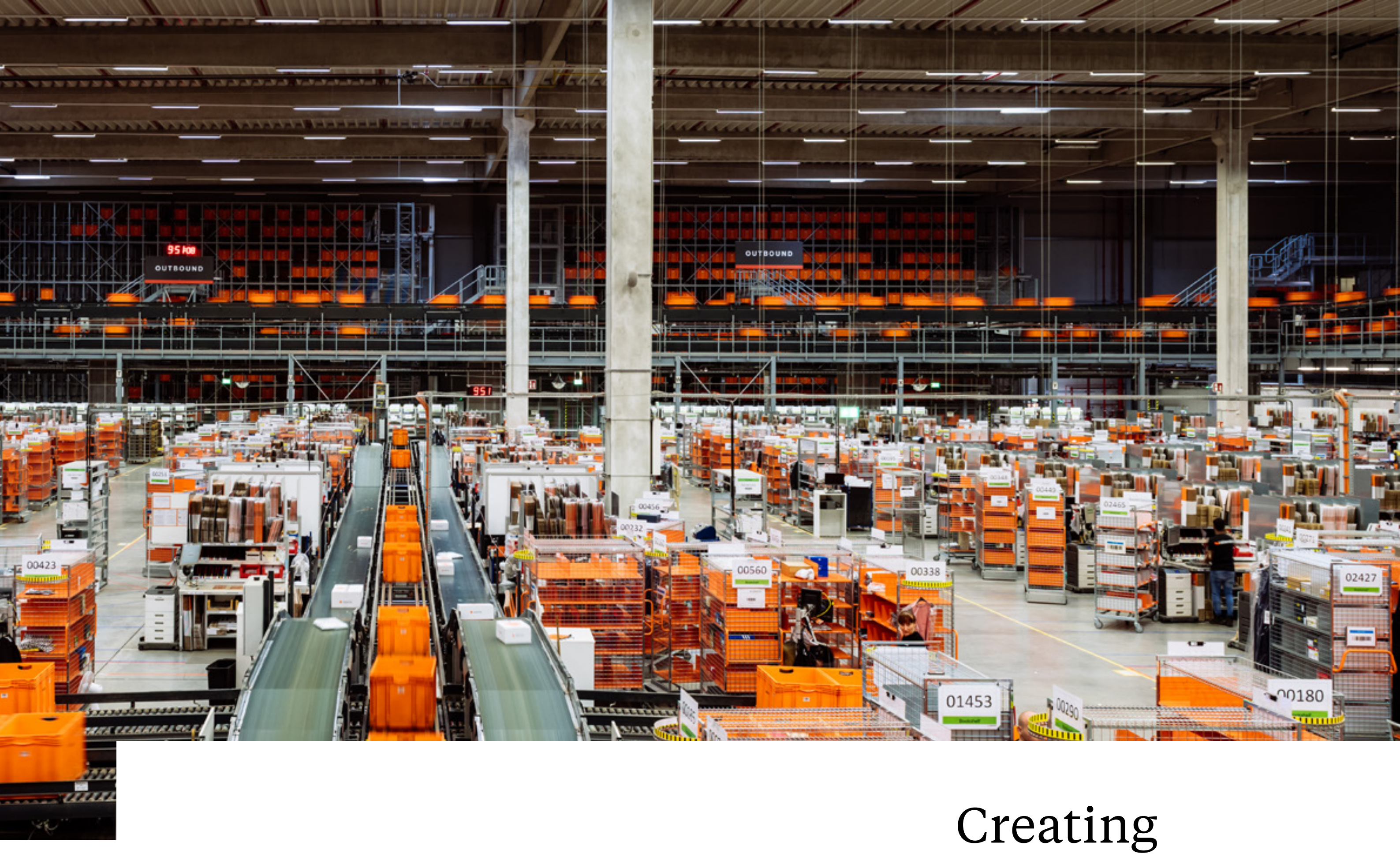
Over the past year, the logistics network has grown to 12 sites across seven European countries.

**7**

We are still growing. By 2025, we plan to add at least seven new fulfillment centers.

**8,000**

The opening of two new logistics sites in 2021, as well as the announcement of three more locations, represents more than 8,000 new jobs.



## Creating the leading European logistics network for fashion and lifestyle products.

The Polish city of Bydgoszcz and the neighboring village of Białe Błota will be home to two new logistics centers opening in 2022 and 2023, respectively. The first location will be 140,000 m², with the second's surface area totalling 100,000 m². The sites will create more than 4,000 jobs.

# 4,000

jobs will be created by the two new Polish logistics sites in Bydgoszcz and its neighboring village of Białe Błota.

The fulfillment centers will make use of pro-ecological solutions, such as enhanced building thermal insulation, charging stations for electric cars, and rainwater collection and redistribution in accordance with the BRE Environmental Assessment Method sustainability rating of "Excellent".

While the oldest Zalando logistics site in Erfurt, Germany celebrated its ninth birthday, Zalando started the construction of a fourth German site in Giessen, which will feature a size of 130,000 m², create 1,700 jobs and is expected to go live in 2023.

# **Partnering with Sephora** to become a trusted destination for online beauty

**In June 2021**, we announced our partnership with Sephora, which combined curation from the world's leading omnichannel beauty retailer with Zalando's unparalleled customer experience and deep e-commerce knowledge. The partnership — currently live in Germany with further markets to follow already in 2022 — marks one of the major milestones on the path to offering our customers the most relevant choice of prestige beauty products today.

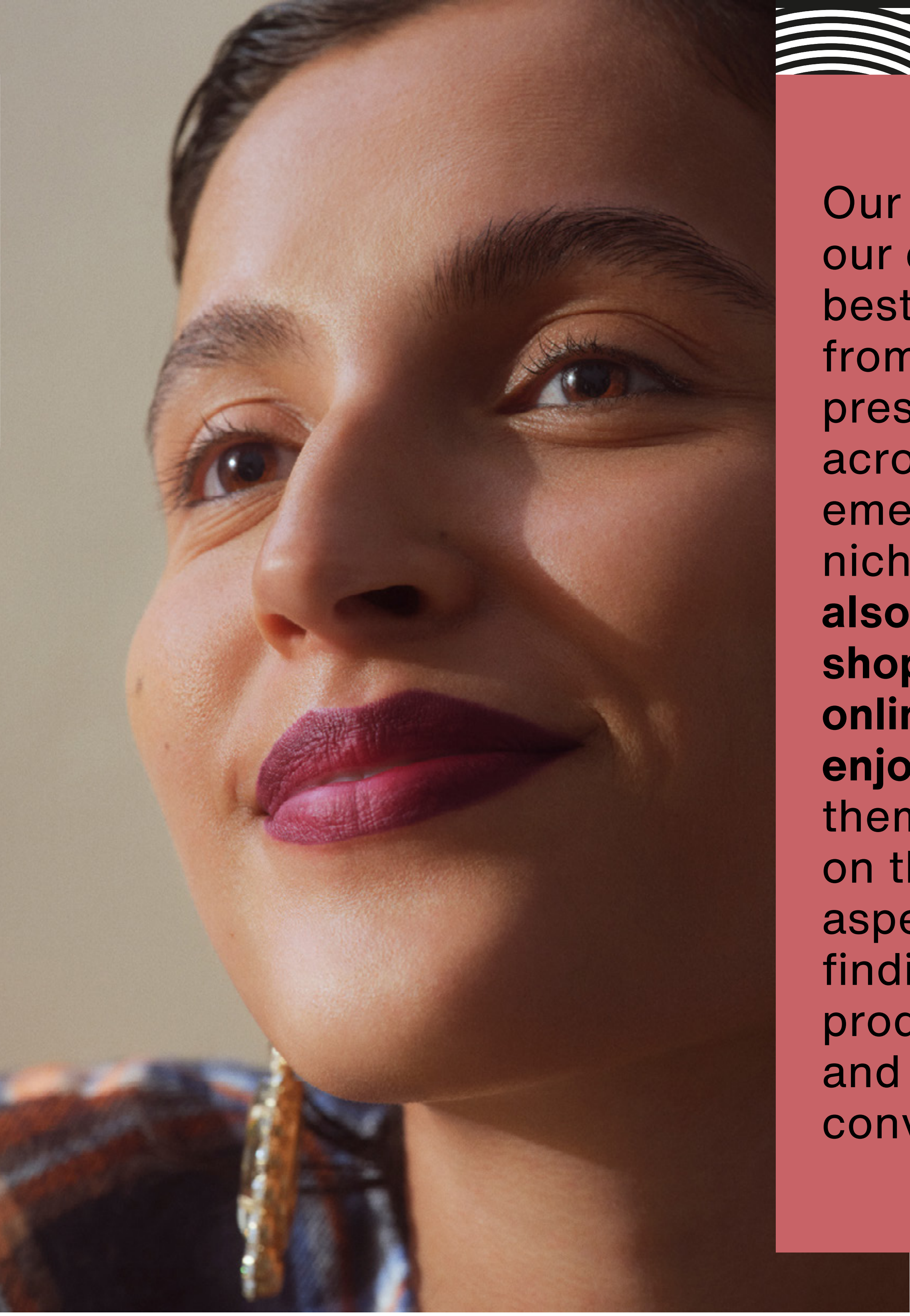
The partnership makes Zalando more relevant than ever to customers as a single destination for fashion and beauty by adding thousands of exclusive and prestige beauty products from more than 300 brands to the Zalando assortment.

"We have seen that our customers want to shop beauty and fashion simultaneously. The Sephora partnership puts us in a strong position to become a trusted destination for online beauty — a category poised for growth in the coming years. As a one-stop destination for fashion and lifestyle, we want to empower and inspire Zalando customers to find the perfect choice of fashion and beauty in one place and at the same time give our brand partners a platform for their digital success."

**David Schneider**
Co-CEO, ZALANDO SE

Our data shows that in three out of five cases, Zalando customers also buy fashion products when shopping beauty, which makes the combined offering attractive to our fashion partners, as well as beauty partners, who can benefit from our internationalization, more than 48 million active customers and online retail expertise.

More than **48m** active customers



Our goal is to offer our customers the best assortment from mass to prestige beauty, across iconic, emerging and niche brands. **We also want to make shopping beauty online easy and enjoyable** for them by focusing on three key aspects: ease of finding the right product, discovery and trial, and convenience.

"This partnership illustrates our ambition to relentlessly innovate to delight our customers better than anyone else. Zalando, which today is the most successful online fashion platform in Europe, is the ideal partner for us to continue to inspire customers. By bringing together fashion, accessories, and prestige beauty under one roof, we will offer them the best destination to 'look great and feel great', in a unique premium environment. This partnership is a key step in our European growth strategy and illustrates our vision for the future of beauty and retail."

**Martin Brok**
CEO, Sephora

# Creating business opportunities for local stores **with Connected Retail**

**Established in 2018,** Zalando's Connected Retail program today enables almost 7,000 brick-and-mortar stores to easily connect to the Zalando platform and sell to millions of customers online. With its expansion to Austria, Belgium, France, Italy and Switzerland in 2021, Connected Retail is now available in 13 of Zalando's 23 markets.

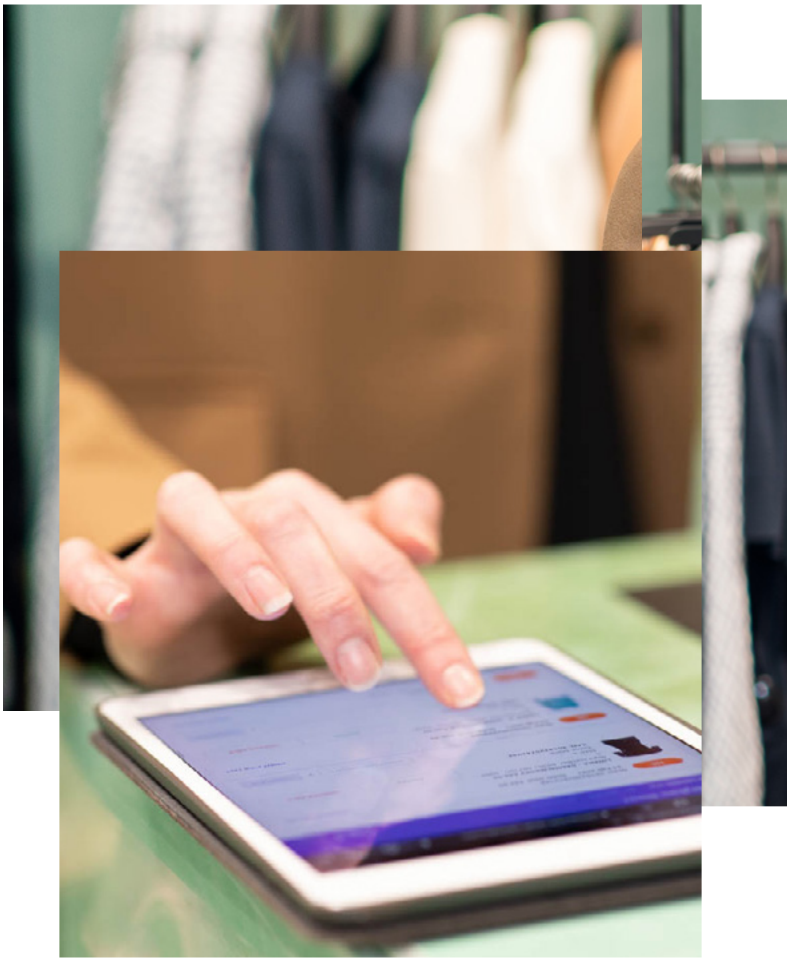
**60%**

The program can help stores build an online business and achieve up to a 60% increase in sales.

**13**

With its expansion to Austria, Belgium, France, Italy and Switzerland in 2021, Connected Retail is now available in 13 of Zalando's 23 markets.

The program can help stores build an online business and achieve an increase in sales of 50% or greater. With pandemic related restrictions and changes in consumer behaviour further accelerating the structural shift of consumer demand from offline to online channels, Connected Retail has allowed stores to continue selling even when their stores had to close and to create additional long term business opportunities.



Connecting stock to the platform is quick, easy and affordable: Zalando provides the necessary software tools, online content, payment options, customer support and dedicated support for stores through a personal account manager, as well as many other services.

Almost **7,000**

physical stores are now selling through the Zalando platform in our Connected Retail program.

While the program allows stores to increase their sales and inventory turnover by connecting them to millions of customers online, it is at the same time increasing product availability on Zalando and makes our assortment more locally relevant.

The Connected Retail program also plays a role in forming stronger relationships with markets, as we **develop expertise to work with local stores.** When we create a Connected Retail team for a new country, we recruit employees with the specific know-how to support local retailers.


# **Empowering customers** to make more sustainable decisions

**Zalando's vision is** to become a sustainable fashion platform with a net-positive impact for people and the planet. We want to use our position as a platform to help customers make more sustainable choices. In shopping more sustainable fashion there is a big gap between intention and action, unveiled by our proprietary attitude-behaviour gap study, which looked at what is stopping customers from shopping more sustainably and how the industry can help close this gap.

**50%**
of consumers do not understand what sustainability means in a fashion context.

**60%**
of consumers say repair, second hand and sustainable disposal are important to them.

In April 2021, we published these findings in our report, "It Takes Two: How the Industry and Consumers Can Close the Sustainability 'Attitude-Behavior Gap' in Fashion". Our data showed that 50% of customers do not understand what sustainability means in a fashion context and that the gap is especially wide when it comes to circular behaviours. Around 60% of consumers say repair, second hand and sustainable disposal are important to them. Still, few have embraced the circularity concept. Just 23% repair their own clothes and only 25% regularly buy second hand.

With this knowledge, and with the ambition to lead in the industry, we took additional steps towards fulfilling the targets outlined in our 2019 do.MORE sustainability strategy, and developed new initiatives to accelerate sustainability in fashion. In order to decouple growth from environmental impact Zalando, among other things, is working towards applying the principles of circularity and extending the life of at least 50 million fashion products and generating 25% of GMV from more sustainable products by 2023.

Currently these products represent more than 21.6% of our GMV. We are working with our partners to increase the sustainability assortment we offer to our customers, in addition to helping them make more sustainable choices via our value-based browsing experience.

In order to become a fully circular business in the long run, Zalando has started implementing initiatives across the stages of the product life cycle. In the Design stage, Zalando is working with the Berlin-based start-up circular.fashion to define industry-wide circular product criteria and upskill our private label teams on circular design. Within our private label ZIGN we grew the “redeZIGN for circularity” collection with QR code digital product passports. The expansion of our Pre-owned category to 13 European markets and from 20,000 to now over 245,000 articles speaks to the actions being taken in the Re-use phase. In the last phase, Closing the Loop, Zalando invests in a Finnish fabric recycling technology company, Infinited Fiber Company and in US based recycling company Ambercycle, which work to reduce the burden of textile waste on the environment.

*For more details about the latest developments in our sustainability progress, see our Sustainability Progress Report.*

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# Company

## 1.1 Foreword

**The Management Board** from left to right:
**David Schneider, Robert Gentz, David Schröder, Dr. Astrid Arndt, Jim Freeman**

# Dear shareholders,

Just over 13 years ago we took our first steps by selling shoes out of a flat in Berlin. Today, we are proud to be a leading European platform for fashion and lifestyle with more than 17,000 employees, welcoming almost 3,000 new Zalandos in the last year alone. We serve more than 48 million active customers across 23 European countries offering global and local brands and joined the leading German stock market index, DAX, in September 2021. Reaching these milestones provides an opportunity to reflect on our journey so far and look ahead at the substantial possibilities that still lie before us.

On October 1, 2014, we rang the bell at the Frankfurt Stock Exchange. At the time we had about 7,500 employees and about 15 million active customers in 15 countries. We have come a long way since, and our journey continues. We aim to be the Starting Point for Fashion and serve more than 10% of the total EUR 450bn European fashion market in the long term. Zalando can be the catalyst to transform how people experience and buy fashion, and how physical and digital experiences merge. And we aim to decouple our growth from the resources we use, turning Zalando into a sustainable fashion platform with a net-positive impact for people and the planet.

Our customers are at the heart of everything we do, and we strive continuously to delight them with choices for their wardrobe, lifestyle and self-care. We engage with our customers across multiple propositions like Fashion, Beauty, Pre-owned, Zalando Lounge and Zalando Plus and aim to offer the most extensive assortment and the most exclusive brand collaborations. Since October 2021, we are excited to offer Sephora's prestige beauty brands in Germany, and soon in further markets. And recently we started offering Apple's lifestyle products and accessories on our platform. As part of our vision we expanded our footprint across Europe, launching Zalando in six new markets in Central and Eastern Europe. Both our market expansion and the increasing penetration of our existing markets drove the growth of our active customer base. More than one million customers are now members of our Zalando Plus program, which offers the best Zalando experience possible and creates even more opportunities for our brand partners to engage with our most valued customers.

We are helping our brand partners and retailers succeed online, enabling them to drive their digital direct to consumer business via our Partner Program and Connected Retail offerings. Throughout 2021, we continued to support our brand partners and retailers through the lockdowns by providing them with direct access to millions of Zalando customers. Our Partner Program partners also leveraged our unique logistics infrastructure through Zalando Fulfillment Solutions. During the pandemic, many retailers were able to keep their brick-and-mortar stores up and running through our Connected Retail program. By the end of 2021, more than 5,800 brand partners and almost 7,000 stores leveraged our platform to drive their business and allowed us to become an even more attractive fashion and lifestyle destination for customers across Europe.

With our "It takes two – Attitude-Behavior Gap Report" we took a deep dive into what hinders customers from bringing their aspirations in sustainable fashion to life. We shared clear and actionable recommendations on how the industry and customers can close this gap together. We are taking steps to transform the fashion industry into a more diverse, inclusive and sustainable future because we believe it's the right thing to do. On that path we are raising the bar for ourselves and for our partners with the aim to re-imagine fashion for the good of all. We are proud that last year our brand, logistic and packaging partners covering 51% of our supplier-related emissions have set science-based targets. We grew our sustainability assortment to more than 140,000 products, which accounted for 21.6% of our Gross Merchandise Volume, up from 16% in 2020.

In 2021 the COVID-19 pandemic still continued to evolve and to affect the lives of people across the globe. We therefore focused on the safety and health of all our employees as our number one priority. We facilitated remote working whenever possible, followed strict safety and hygiene measures at all our locations, performed more than 400,000 tests in 2021 and administered more than 6,000 vaccinations.

We are proud of our employees from over 140 nations that work closely together in the entire company. We know that our achievements are only possible thanks to our employees' engagement and the passion for the work they do for our customers and partners every day.

Finally, we thank you for your support and welcome you and our employees, customers, partners, brands and communities to be part of our journey.

Berlin, February 28, 2022

Robert Gentz David Schneider Jim Freeman David Schröder Dr. Astrid Arndt

# 1.2 Report of the Supervisory Board

## Dear shareholders,

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

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

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

## Consultation and monitoring

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

Further information corporate governance statement

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

## Meetings of the Supervisory Board and its committees

The plenum of the Supervisory Board held four meetings in fiscal year 2021, the audit committee held five meetings, the remuneration committee held four meetings, the nomination committee held three meetings and the D&I and sustainability committee, which was established in August 2021, held one meeting in fiscal year 2021. The Supervisory Board established a committee for the share buy-back program of the company, which held one meeting. In addition, the Supervisory Board passed three circular resolutions and the nomination committee passed one circular resolution. The Supervisory Board and its committees also convened regularly without the Management Board as necessary to deliberate on items that pertained to the Management Board or required internal discussion among Supervisory Board members alone. The plenum of the Supervisory Board was informed about the results of meetings of the committees at its subsequent plenary meetings. Niklas Östberg was unable to attend one meeting of the Supervisory Board. Jennifer Hyman was unable to attend one meeting of the Supervisory Board, two meetings of the remuneration committee and one meeting of the D&I and sustainability committee. The other members of the Supervisory Board attended all meetings of the Supervisory Board and all meetings of their respective committees.

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

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

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

## Plenary meetings

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

At its ordinary meeting on March 15, 2021, the Supervisory Board discussed and in accordance with the recommendations of the audit committee adopted the financial statements for 2020 (including the combined management report for 2020) and approved the consolidated financial statements for 2020 (including the combined management report for 2020) as well as the non-financial report 2020 as presented by the Management Board. It followed the proposal of the Management Board for the appropriation of profit for fiscal year 2020. In addition, the Supervisory Board adopted a resolution regarding its report for fiscal year 2020 and dealt with the agenda for the annual general meeting 2021. The Supervisory Board also reviewed and discussed the new remuneration system for the Management Board as presented by the remuneration committee. Further, the Supervisory Board appointed

Dr. Astrid Arndt as member of the Management Board and resolved on the amended Rules of Procedures of the Management Board. Last but not least, the Supervisory Board discussed the progress of the platform ambitions of the company. Due to a potential conflict of interest, Anders Holch Povlsen and Jørgen Madsen Lindemann had received condensed pre-read material with selected information on this topic.

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

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

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

Based on the law and the requirements laid down in the Articles of Association and the Management Board's Rules of Procedure, certain transactions and measures require the prior approval of the Supervisory Board. These transactions were presented to the Supervisory Board for approval. The transactions and measures discussed by the Supervisory Board included *inter alia* the partnership with Sephora SAS, the budget for a new fulfillment center, the increase of the reverse factoring facility and the delegation of approval matters relating to the share buy-back to an ad hoc committee (the share buy-back committee). The Supervisory Board has delegated the power to approve fulfillment center investments to the audit committee, as far as these require approval under the Management Board's Rules of Procedure.

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

## Audit committee

The audit committee analyzed the annual financial statements for 2020 and the consolidated financial statements for 2020, including the combined management report for 2020 and the non-financial report 2020, as well as the quarterly statement for the first quarter, the half-year report and quarterly statement for the third quarter of 2021. The audit committee regularly reviewed and discussed the focus and the quality of the audit, the status reports on GRC (Governance, Risk & Compliance) including data privacy, litigation and the work of the internal audit, the treasury reports and the approval of non-audit services. The audit committee was involved in the preparation of the Supervisory Board's proposal to the annual general meeting

2021 for the appointment of the auditor and group auditor and discussed the status and development of the establishment of a non-financial internal control system. The chairperson of the audit committee conferred with the auditors on the audit focus. Further, the budget for a new fulfillment center was approved by the audit committee in accordance with its delegated powers.

### Remuneration committee

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

### Nomination committee

The nomination committee dealt with the preparation of the proposals of the Supervisory Board to the annual general meeting regarding the election of the shareholder representatives of the Supervisory Board. In doing so, the nomination committee considered the targets for the composition of the Supervisory Board as well as the profile of skills and expertise which the Supervisory Board had previously determined. The nomination committee further dealt with the continuation of the succession planning of the Supervisory Board.

### D&I and sustainability committee

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

### Share buy-back committee

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

### Conflicts of interest

Due to a conflict of interest, Supervisory Board members Anders Holch Povlsen and Jørgen Madsen Lindemann received condensed pre-read material with selected information on one agenda item of an ordinary meeting. Apart from that, no conflicts of interest of any Supervisory Board member occurred in the context of the work of the Supervisory Board.

### Training and professional development

The company supported the Supervisory Board member Niklas Östberg upon his appointment with a virtual onboarding training including detailed onboarding materials. The topics covered by the onboarding included tasks, rights and duties of the Supervisory Board, set-up and internal organization, conflicts of interest and directors' dealings. He also received insights into Zalando's business model. Cristina Stenbeck as chairperson was briefed and trained in-depth in a virtual session including relevant materials on the content and sequences of the governance roadshow. A training session on Corporate Governance matters, including but not limited to corporate bodies' roles, personal suitability, key tasks and personal liability, conducted by an external provider in the form of a video conference was offered to all members of the Supervisory Board. Besides, the company educated the members of the Supervisory Board about regulatory changes, such as the new legal and governance framework under the German Financial Market Integrity Strengthening Act (FISG), the Act to supplement and amend the Regulations for the equal Participation of Women in Management Positions in the private and public Sectors (Zweites Führungspositionen-Gesetz, FüPoG) and the new Transparency Register and Financial Information Act (Transparenzregister- und Finanzinformationsgesetz, TraFinG).

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

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

Further information combined management report

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

Further information combined management report

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

Further information consolidated financial statements

## Corporate governance

The annual declaration of conformity was issued by the Management Board and the Supervisory Board in December 2021. The complete text of the declaration can be found in section 1.3.1. The declaration is made permanently available in the Corporate governance section on the company's website.

Further information
corporate governance statement

More information on corporate governance can be found in the Corporate Governance Statement and the associated declaration. With regard to the remuneration structure for the members of the Management Board for fiscal year 2021 and to avoid repetition, please see the remuneration report.

## Personnel matters

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

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

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

Berlin, February 28, 2022

Cristina Stenbeck

# 1.3 Corporate governance statement

In the following, our Management Board and Supervisory Board submit the corporate governance statement pursuant to Sections 289f and 315d HGB (German Commercial Code) as the core instrument of corporate governance reporting (Principle 22 of the German Corporate Governance Code). In accordance with Sections 289f and 315d HGB, this statement forms part of the combined management report.[1] Corporate governance, as practiced by Zalando, involves responsible management and control of the company geared towards long-term goals. Our Management Board and Supervisory Board value good corporate governance very highly and align their approach to the recommendations set out in the German Corporate Governance Code.

## 1.3.1 Declaration of conformity

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

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

Since the publication of the last annual declaration of conformity in December 2020, ZALANDO SE has acted in conformity with the recommendations of the Government Commission German Corporate Governance Code in its version of December 16, 2019, published by the Federal Ministry of Justice and Consumer Protection in the official section of the Federal Gazette (Bundesanzeiger) on March 20, 2020 (Code) with the exceptions of the recommendations B.3 and G.7 explained below. ZALANDO SE acts and will continue to act in conformity with the recommendations of the Code with the exception of the recommendation G.7 explained below.

### Deviation from recommendation B.3 of the Code

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

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

### Deviation from recommendation G.7 of the Code

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

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

## 1.3.2 Corporate governance

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

Our Code of Ethics sets expectations and provides guidance on how we want to do business and is the basis of all group policies. It is available on the corporate website and has been communicated to the employees in various languages. Under the Code of Ethics, all employees are required *inter alia* to comply with the law and our group policies, including, but not limited to, anti-corruption practices, antitrust regulations, data protection, insider compliance and tax provisions. Our Code of Ethics also sets our expectations with regard to Diversity & Inclusion, respectful behavior and avoidance of conflicts of interest. Fostering a speak-up culture so that employees actively participate and raise concerns or report compliance breaches is an essential part of Zalando's culture. This expectation is complemented by the promise to protect all those who report an incident in good faith from negative consequences.

Our Code of Conduct for business partners sets the minimum standards by which business partners who produce or supply goods and services for us must abide. It is published on the corporate website. We expect every business partner to acknowledge these standards to assure a safe and fair working environment and to commit to compliance with applicable laws and regulations regarding human and labor rights, environmental protection as well as fair and ethical business practices (the latter includes anti-corruption and anti-financial crime, privacy law and fair competition as well as intellectual property). We also require appropriate management systems and due diligence processes to be in place.

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

All our employees in scope (as described in more detail in the following) are trained on compliance, our Code of Ethics, Code of Conduct and group policies, including anti-corruption related policies, e.g. our group policy benefits, gifts, events & expenses. Mandatory compliance training is conducted as face-to-face training courses for leads, and generally as e-learning courses for employees without leadership responsibility. The e-learning courses are mandatory for all employees who have a Zalando email address (except for defined roles with low compliance risks in logistics and stores). Employees at entities outside Berlin[2] receive classroom training instead of e-learning courses to facilitate personal contact with the central Compliance & Business Ethics Team. Due to the ongoing COVID-19 pandemic in the reporting period, the face-to-face format was conducted via video chat.

In the reporting period, 27 compliance basics face-to-face training courses were carried out. Compared to 2020 (43), we reduced the number of training courses by combining courses and raising the average number of participants. In sum, we trained a comparable number of colleagues. 5,409 employees completed the compliance basics e-learning courses (2020: 4,116), among them 2,995 employees of ZALANDO SE (2020: 2,277). Each mandatory training course is followed by mandatory refresher courses every other year. Employees receive an automatic reminder to fulfill their training obligations. If the employees do not fulfill their obligations, the lead will be informed and reminded repeatedly until the training is completed.

The Code of Ethics also stipulates the obligation for all employees to comply with our data protection standards, as set out in internal policies, principles and guidelines. Protecting personal data and collecting, processing, and using the data in accordance with the law is fundamental to us because it is essential not just for our employee and partner data but especially for our customers and their trust in our products and services. Our customers' trust is the basis for long-term customer relationships. Zalando ensures regular employee privacy training and has designed actionable privacy principles to create awareness and guardrails for privacy compliant business design and conduct. For our employees we have a dedicated online resource with guidance on how it handles employee data and sets out rights employees have

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

in relation to personal data they share with Zalando. Specialized privacy roles support all business divisions with guidelines and standards to ensure proper safeguards are implemented across the company and its group entities. Zalando is regulated under European and national data protection regulations and we closely monitor changes in legislation in order to properly adopt regulatory requirements.

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

The standards and scope of our Code of Conduct were revised in 2021. The roll-out is planned for 2022. The revised version reflects the most recent regulatory developments and aims to appropriately cover and stress all salient topics. We have included a section on corporate digital responsibility and highlighted the importance of a digitally inclusive and sustainable future. We encourage all business partners to recognize their own digital responsibility in line with the Corporate Digital Responsibility Code[3]. Moreover, we have included an even clearer statement of consequence management with regards to violations of our standards. Also according to the revised Code of Conduct, business partners are expected to comply with applicable national and international regulations and must establish appropriate anti-bribery and anti-corruption policies and communicate these to all business areas. Zalando carries out business partner due diligence reviews (sanction list screening and compliance database and adverse media checks, followed by an in-depth review carried out by the Compliance & Business Ethics Team if any findings are made) for defined groups of business partners[4] and in cases where potential compliance risks are apparent.

The Risk Management Team creates transparency on risks and opportunities for decision makers, fosters the risk and opportunity culture and creates a common understanding of risks and opportunities throughout the company. The risk and opportunity management system (RMS) is designed to support the decision-making process with consistent, comparable and transparent information via a standardized process to identify, assess, monitor, document, and report on strategic, operational and financial risks and opportunities as well as on compliance risks. Further information can be found in the risk and opportunity report. A system of internal controls over financial reporting is in place to support the accuracy of bookkeeping and accounting and the reliability of financial reporting, which comprises preventive, monitoring and detection measures. In 2021, processes, risks and controls related to sustainability, Diversity & Inclusion and general performance aspects were documented in order to include non-financial KPIs to the system of internal controls.

3) Further information on the Code of the CDR initiative launched by the Federal Ministry of Justice and Consumer Protection (BMJV) is available under https://cdr-initiative.de/en/kodex.
4) According to commodity groups, namely logistic services, professional services, corporate property, packaging and direct business partners in sourcing for private labels and in overstock management.

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

The Compliance & Business Ethics Team and the Risk Management Team work closely together with the Legal and Internal Audit Teams in fulfilling their tasks in a cross-functional approach. The Management Board bears overall responsibility for the proper functioning of the risk and compliance management system as well as the system of internal controls and the Supervisory Board monitors the effectiveness of the systems.

## 1.3.3 Management Board and Supervisory Board procedures

### Management Board procedures

The Management Board bears responsibility for managing the company's business. It is bound to act in the interest of the company and to increase the long-term value of Zalando. The five members of the Management Board, Robert Gentz, David Schneider, Dr. Astrid Arndt, Jim Freeman and David Schröder are responsible for the company's strategy and its day-to-day implementation. They work collaboratively and inform each other constantly about any significant measures and events within their areas of responsibility. The Management Board develops the strategy, consults regularly with the Supervisory Board on it, and ensures that it is implemented. It also manages the business transactions with the diligence of a prudent and conscientious manager. The Management Board's collaboration with other corporate and employee representative bodies is open and trusting for the benefit of Zalando.

The collaboration and responsibilities of the Management Board members are determined in the Rules of Procedure set out by the Supervisory Board. Each member of the Management Board has sole responsibility for the area of business allocated to them. Each area of business is managed consistently by aligning it to targets agreed upon by the Management Board. The two co-chairpersons of the Management Board Robert Gentz and David Schneider jointly coordinate all responsibilities of the Management Board. They act to ensure that the management of all business areas is uniformly guided by the objectives set and approved as a whole by the Management Board.

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

Each member of the Management Board is required to disclose any conflicts of interest to the Supervisory Board immediately. All transactions between the company or group entities on the one hand and the members of the Management Board as well as their related parties on the other must be conducted at arm's length and material transactions require Supervisory Board approval.

### Composition of the Management Board

The members of the Management Board shall have the knowledge, skills and professional experience required to duly fulfill their tasks and responsibilities. While qualification and specific needs of the company shall be the decisive criterion with regard to the Management Board's composition, the Supervisory Board emphasizes the importance of diversity.

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

- The Management Board as a whole should have appropriate management experience.
- The Management Board as a whole should, if possible, have knowledge and balanced experience based on different training and professional backgrounds, in particular in the fashion, technology and e-commerce industry and should have international experience.
- The Management Board as a whole should, if possible, possess several years of experience in the fields of strategy, finance as well as personnel management.
- The Supervisory Board aims for a balanced gender representation in the Management Board. The Supervisory Board has resolved on a target until December 31, 2023 in accordance with Section 111 (5) AktG (please see section 1.3.4).
- The Management Board members should not be older than 65 when elected.

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

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

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

## Supervisory Board procedures

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

The Supervisory Board has adopted Rules of Procedure. The Rules of Procedure are published on the corporate website. They govern the procedures and allocation of duties of the Supervisory Board and its committees. The Supervisory Board convenes at least one meeting per quarter; further meetings are convened as necessary. The Supervisory Board regularly assesses the effectiveness of its own activities and those of its committees. It reviewed the results of its 2020 efficiency self-assessment in January 2021. Using a questionnaire, the self-assessment focused on the supply of information to the Supervisory Board, the structure and efficiency of meetings, the setup and procedures of the Supervisory Board's committees, the composition of the Supervisory Board, its succession planning, the quality of the audit and Zalando's internal control system as well as the level of information on specific focus topics the Supervisory Board has been involved with. No noteworthy shortcomings were identified. In December 2021, the efficiency self-assessment for fiscal year 2021 was supported by an external service provider who conducted individual interviews with all members of the Supervisory Board and three members of the Management Board, distributed an anonymous online survey with a questionnaire provided to all members of the Supervisory Board and performed a light desktop review of all plenum and committee agendas since 2019. The self-assessment 2021 focused on the supply of information to the Supervisory Board, the structure and efficiency of meetings, the setup and procedures of the Supervisory Board's committees, the composition of the Supervisory Board, its succession planning, the level of information on specific focus topics the Supervisory Board has been involved with. No noteworthy shortcomings were identified but it was agreed to address specific areas of improvement over the next few months. Each member of the Supervisory Board must disclose conflicts of interest to the Supervisory Board, particularly those that might arise as a result of an advisory or committee function at customers, suppliers, creditors, borrowers or other third parties. If a member of the Supervisory Board has a significant, non-temporary conflict of interest, that member of the Supervisory Board should resign from office.

The Supervisory Board has set up an audit committee, a remuneration committee, a nomination committee and a D&I and sustainability committee that was established in 2021. These committees comprise at least three members each.

## Composition of the Supervisory Board

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

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

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

The Supervisory Board aims for a balanced gender representation in the Supervisory Board and has resolved on a target until December 31, 2023 in accordance with Section 111 (5) AktG (please see section 1.3.4).

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

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

The composition of the Supervisory Board of ZALANDO SE in fiscal year 2021 met the composition targets it had set itself in all respects. The required expertise is represented in the Supervisory Board, the competence profile has been completed and the targets of the diversity concept are met.

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

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

## Composition of the Supervisory Board

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

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

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

Current and past mandates of the Supervisory Board

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

## Audit committee

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

Members of the audit committee

| |
|---|
| Mariella Röhm-Kottmann (chairperson) |
| Matti Ahtiainen |
| Kelly Bennett |
| Niklas Östberg (since May 19, 2021) |
| Jørgen Madsen Lindemann (until May 19, 2021) |

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

### Remuneration committee

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

Members of the remuneration committee

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

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

### Nomination committee

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

Members of the nomination committee

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

## D&I and sustainability committee

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

Members of the D&I and sustainability committee

| |
|---|
| Kelly Bennett (chairperson) |
| Jade Buddenberg |
| Jennifer Hyman |

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

We attach great importance to Diversity & Inclusion throughout Zalando and we are convinced that only a diverse and inclusive culture will ensure that we have the best talent on board and can truly serve our customer base. For further details on Zalando's Diversity & Inclusion strategy, please refer to our Diversity & Inclusion report 2021 which can be found on our corporate website.

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

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

- at least 40% women and at least 40% men for the Supervisory Board (which corresponds to a minimum number of four female and four male members);
- at least 40% women and at least 40% men for the Management Board;
- at least 40% women and at least 40% men for the first four management levels below the Management Board.

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

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

## 1.3.5 Takeover law disclosures pursuant to Sections 289a (1), 315a (1) HGB and explanatory report[5]

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

### Composition of issued capital

With respect to the composition of the issued capital, please refer to section 3.5.7 (20.).

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

## Restrictions relating to voting rights or the transfer of shares

At the end of the reporting year, ZALANDO SE had 3,302,861 treasury shares that do not grant rights in accordance with Section 71b AktG.

## Shareholdings that exceed 10% of the voting rights

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

## Statutory regulations and provisions of the articles of association concerning the appointment and removal from office of Management Board members, and concerning modifications to the articles of association

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

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

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

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

Our Management Board is authorized to increase the registered share capital of the company until June 22, 2025, with the consent of the Supervisory Board, once or several times, by up to a total of EUR 100,266,384 by issuing up to 100,266,384 new no-par value bearer shares against contributions in cash and/or in kind (Authorized Capital 2020). The shareholders are, in principle, entitled to subscription rights. The Management Board is authorized to exclude the subscription right of the shareholders with the consent of the Supervisory Board in the cases described in the authorization. The total shares issued under the authorization with the exclusion of subscription rights must not exceed 20% of the registered share capital, either at the time the authorization becomes effective or at the time it is exercised. The aforesaid 20% limit includes (i) treasury shares sold with the exclusion of subscription rights, and (ii) shares to be issued to service bonds with conversion and/or option rights or obligations, insofar as the bonds were issued with the exclusion of shareholders' subscription rights on the basis of the authorization by the annual general meeting of June 23, 2020. The Management Board is authorized, with the consent of the Supervisory Board, to determine any further details of the capital increase, the further content of the rights arising from the shares and the conditions of the share issue.

The share capital of the company is conditionally increased by up to EUR 8,817,500 by issuing up to 8,817,500 new no-par value bearer shares (Conditional Capital 2013). The Conditional Capital 2013 may be used only to fulfill the subscription rights that have been granted to the members of the Management Board of the company in connection with the Stock Option Program 2013 in accordance with the resolution of the annual general meeting of December 18, 2013, as amended by the company's annual general meetings of June 3, 2014, July 11, 2014, and of June 23, 2020. The conditional capital increase will be implemented only to the extent that such subscription rights have been or will be issued in accordance with the Stock Option Program 2013, the holders of the subscription rights exercise their rights and the company does not deliver treasury shares to satisfy the subscription rights. The Supervisory Board is exclusively competent regarding the granting and settlement of subscription rights to the members of the Management Board of the company.

The share capital of the company is conditionally increased by up to EUR 3,442,394 by issuing up to 3,442,394 new no-par value bearer shares (Conditional Capital 2014). The Conditional Capital 2014 may be used only to fulfill the subscription rights that have been granted to employees of the company as well as members of the management bodies and employees of companies affiliated with the company in the meaning of Sections 15 et seq. AktG in connection with the Stock Option Program 2014 in accordance with the resolution of the annual general meeting on June 3, 2014, as amended by the company's annual general meetings of July 11, 2014 and of June 23, 2020. The conditional capital increase will only be implemented to the extent that such subscription rights have been or will be issued in accordance with the Stock Option Program 2014, the holders of the subscription rights exercise their rights and the company does not deliver treasury shares to satisfy the subscription rights.

The share capital of the company is conditionally increased by up to EUR 3,340,236 against contribution in cash and in kind by issuing up to 3,340,236 new no-par value bearer shares with a pro rata share in the share capital of EUR 1.00 to fulfill subscription rights to shares of the company (Conditional Capital 2016). The Conditional Capital 2016 may be used once or several times only to fulfill the subscription rights that have been granted until May 30, 2021 – partly as a component of stock appreciation rights – in accordance with the resolution of the annual general meeting of May 31, 2016. The new shares are subscribed either against a cash payment in the amount of the lowest issue price in the meaning of Section 9 (1) AktG or against the contribution of the participants' remuneration entitlements under the stock appreciation rights granted to them, which are granted in accordance with the resolution of the annual general meeting of May 31, 2016. The conditional capital increase will be implemented only to the extent that subscription rights or stock appreciation rights with subscription rights have been or will be issued in accordance with the resolution of the general meeting of May 31, 2016, the holders of subscription rights exercise their rights and the company grants no treasury shares or cash payments for the satisfaction of the subscription rights.

The share capital of the company is conditionally increased by up to EUR 1,522,269 against contribution in cash and in kind by issuing up to 1,522,269 new no-par value bearer shares with a pro rata share in the share capital of EUR 1.00 to fulfill subscription rights to shares of the company (Conditional Capital 2019). The Conditional Capital 2019 may be used only to fulfill the subscription rights granted to the Management Board of ZALANDO SE in connection with the Long-Term Incentive 2018 in accordance with the resolution of the annual general meeting on May 22, 2019 under agenda item 7. The conditional capital increase will be implemented only to the extent that the holders of the granted subscription rights exercise their right to subscribe for shares of ZALANDO SE and the company grants no treasury shares or cash payments to fulfill the subscription rights. The new shares under the conditional capital will be issued for the minimum issue amount pursuant to Section 9 (1) AktG.

The share capital is conditionally increased by up to EUR 75,199,787 by issuing up to 75,199,787 new no-par value bearer shares (Conditional Capital 2020). The purpose of the conditional capital increase is to grant shares to the holders/creditors of convertible bonds and/or bonds with warrants or a combination of all of these instruments issued until June 22, 2025, by the company or any subordinate group company of the company pursuant to the authorization on which a resolution was passed by the annual general meeting on June 23, 2020, under agenda item 11 lit. b) and that grant a conversion or option right to new no-par value bearer shares of the company or provide for a conversion or option obligation or an option entitling the issuer to deliver shares to the extent that they are issued against cash contributions. The new shares are issued in each case at a conversion price or option price to be stipulated pursuant to the authorization resolution specified above. The conditional capital increase is carried out only to the extent to which use is made of conversion or option rights or conversion or option obligations are fulfilled or an option entitling the issuer to deliver shares is exercised and no other forms of fulfillment of delivery are used. The Management Board is authorized, with the consent of the Supervisory Board, to determine the further details of the implementation of conditional capital increases.

The new shares from the Conditional Capital 2013, the Conditional Capital 2014, the Conditional Capital 2016, the Conditional Capital 2019 and the Conditional Capital 2020, participate in the profits from the beginning of the fiscal year in which they are issued; notwithstanding this, the new shares participate in the profits from the beginning of the fiscal year preceding the fiscal year in which such new shares are created if the general meeting has not yet adopted a resolution on the appropriation of the distributable profit of the fiscal year preceding the fiscal year in which such new shares are created.

The Management Board is authorized until June 22, 2025, to acquire treasury shares for any permissible purpose totaling up to 10% of its registered capital as of the date of the resolution or as of the date on which the authorization is exercised if the latter value is lower. Shares acquired may not at any time amount to more than 10% of the total share capital when taken together with other treasury shares held by the company or allocable to the company in accordance with Section 71a et seq. AktG. In addition to this, the Management Board is authorized until June 22, 2025, to use derivatives to acquire treasury shares. All shares that are acquired using derivatives are limited to shares that pertain to at most 5% of the share capital existing as of the date of the resolution of the general meeting or, if the amount is lower, share capital existing at the time this authorization is exercised. We refer to the resolutions proposed by the Management Board and the Supervisory Board in items 8 and 9 of the company's annual general meeting agenda for June 23, 2020, which was published in the Federal Gazette on May 15, 2020, with regard to details of the authorization to acquire treasury shares.

### Company compensation agreements that have been entered into with Management Board members or employees in the event of a takeover bid

The Stock Option Program SOP 2013, the Long-Term Incentive LTI 2018, the Long-Term Incentive LTI 2019 and the Long-Term Incentive LTI 2021 allow for option rights held by the Management Board to be supplemented in the case of a change of control. The Supervisory Board and the Management Board are both entitled to request the cancellation of the vested outstanding options in exchange for payment by the company. LTI 2018, LTI 2019 and LTI 2021 options not yet vested at the time of a change in control may be replaced at the discretion of the Supervisory Board by an economically equivalent new program.

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

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

# 1.4 Remuneration report

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

## 1.4.1 Introduction

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

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

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

## 1.4.2 Background

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

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

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

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

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

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

The company aims to achieve a Gross Merchandise Volume (GMV)[6] of more than EUR 30bn by 2025, and – long-term – to serve more than 10% of the European fashion market. Our remuneration framework provides the incentives necessary for the company to attract and retain the best talent to achieve Zalando's strategic objectives and growth ambitions.

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6) 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.

## 1.4.3 Changes in the composition of the Management Board and Supervisory Board during 2021

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

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

## 1.4.4 Management Board remuneration

### Procedure for determining the remuneration system for the Management Board

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

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

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

Board ensures that the remuneration expert is independent of the Management Board and the company.

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

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

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

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

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

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

### Guiding principles

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

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

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

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

### Investor and proxy advisor feedback

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

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

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

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

## Remuneration system 2021

### At a glance

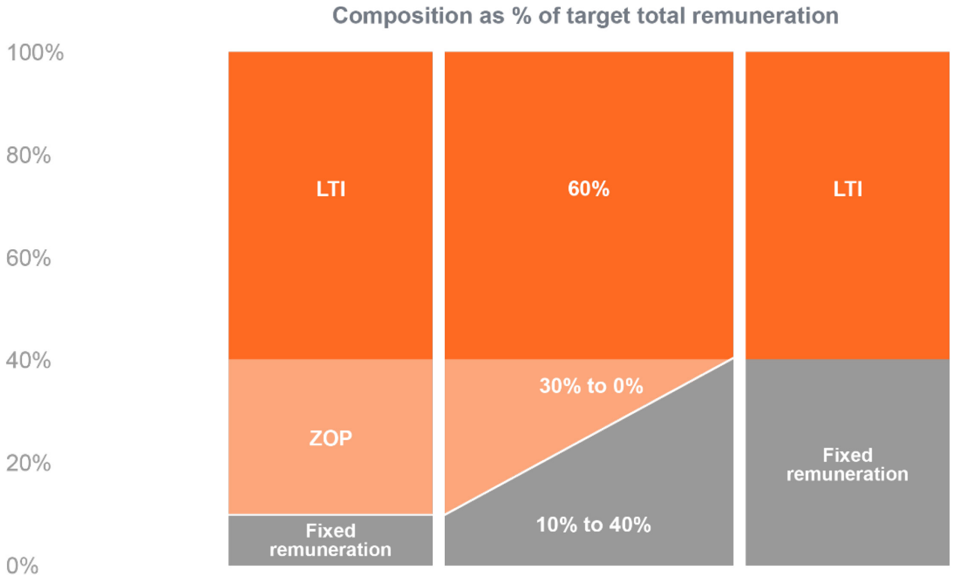
The remuneration system 2021 consists of a fixed base salary, customary fringe benefits, and two variable remuneration components: the Zalando Ownership Plan (ZOP) and a Long-Term incentive program (LTI).

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

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

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

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




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

**Maximum remuneration**

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

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

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

**Malus and clawback regulations**

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

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

## Overview of Management Board remuneration in 2021

### Expenses in 2021

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

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

Expenses recognized for the members of the Management Board

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

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

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

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

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

Remuneration of the members of the Management Board

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

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

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

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

Remuneration of the former member of the Management Board

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

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

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

### 1.4.5 Overview of remuneration systems applicable during the reporting period

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

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

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

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

Although there are certain differences between the compensation packages issued in 2018 and 2019 that reflect the various roles, they share in principle the same or similar elements (e.g. compensation components, type of options) and underlying mechanics (e.g. performance hurdle). The Supervisory Board continues to believe that the entrepreneurial risk and return profile reflected in those former (still applicable) remuneration systems for the Co-CEOs as well as the CFO and CBPO still fit the needs of Zalando as a high-growth company.

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

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

### Fixed remuneration components

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

### Variable remuneration components

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

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

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

## Applicable variable remuneration components in the reporting period

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

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

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

The number of LTI Shares and LTI Options which can be exercised is subject, *inter alia*, to their prior vesting, the expiry of the relevant waiting period and depends on the extent to which the performance criteria are met during the respective performance period.

**Vesting scheme**

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

As a rule, in all cases of premature termination of the office as a member of the Management Board, options which have not yet vested on the date of such termination will cease to vest and be forfeited without compensation. In certain situations of termination qualifying as 'bad leaver' events, even vested and unexercised options of the member of the Management Board concerned will be forfeited without compensation. However, by way of an exception from the above, if the member of the Management Board is revoked from office as member of the Management Board by the company without good cause for termination within the meaning of Section 626 BGB (German Civil Code) and without qualifying as a 'bad leaver', such member of the Management Board retains, in addition to the options which have vested until such termination, also those options which would have vested during a period of two years thereafter.

**Waiting period and exercise period**

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

**Performance period and performance criterion**

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

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

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

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

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

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

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

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

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

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

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

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

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

**Settlement value, cap**

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

**Development of options outstanding**

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

LTI 2021

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

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

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

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

**Waiting period and exercise period**

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

**Performance criterion**

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

**Settlement value and cap**

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

**Development of options outstanding**

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

ZOP 2021

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

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

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

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

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

With respect to negative tax consequences resulting for the CBPO Jim Freeman as a citizen of the United States of America from the application of certain provisions of Sec. 409A of the U.S. Internal Revenue Code, specific rules of the LTI 2019 have been amended (the "Restated LTI 2019") and 68,500 options vested by March 31, 2020 have been canceled and settled by the company as cash and share consideration. The company has indemnified Jim Freeman from the tax penalty under US law imposed on the settlement value and the remaining options under the restated LTI 2019, whereby the indemnity in relation to remaining options is capped and will not exceed the amount which would have been payable if the relevant per-share value of the respective remaining options for purposes of calculating the respective penalties had been EUR 55.00.

**Vesting, waiting period and exercise period**

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

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

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

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

**Performance period and performance criterion**

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

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

The percentage of vested options which can be exercised depends on the extent to which a targeted CAGR of at least 15% has been achieved during the performance period. This requires an outperformance of the expected continued strong growth of the European online fashion retail market during the term of appointment as member of the Management Board by a factor of roughly 2. At the time of establishing the LTI 2019 for Jim Freeman and David Schröder, the European online fashion retail industry was projected to grow at a CAGR of 7%[7] by 2023.

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

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

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

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

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

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

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

**Settlement value and cap**

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

**Development of options outstanding**

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

LTI 2019

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

*) Waiver in connection with voluntary contribution to COVID-19 pandemic saving measures.
**) Canceled and settled as cash and share consideration to mitigate negative tax consequences under Section 409A of the U.S. Internal Revenue Code.
***) Of 155,000 options exercised in 2021 100,000 options were exercised on May 21, 2021 and 55,000 options were exercised on August 25, 2021 at EUR 29.84. Of 52,500 options exercised in 2021 27,500 options were exercised on May 21, 2021 and 25,000 options were exercised on August 25, 2021 at EUR 1.00. Of 67,277 options exercised in 2021 41,591 options were exercised on May 20, 2021. 8,562 options were exercised on June 8, 2021 and 17,124 options were exercised on November 4, 2021 at EUR 1.00.
****) All options were exercised at a share price below the share price cap.

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

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

**Vesting scheme**

The LTI 2018 options vest in quarterly tranches over a five-year period.

As a rule, in all cases of premature termination of the office as a member of the Management Board, options which have not yet vested on the date of such termination will cease to vest and be forfeited without compensation. In certain situations of termination qualifying as 'bad leaver' events, even vested and unexercised options of the member of the Management Board concerned will be forfeited without compensation. However, by way of an exception from the above, if a member of the Management Board is revoked from office as member of the Management Board by the company without good cause for termination within the meaning of Section 626 BGB and without qualifying as a 'bad leaver', such member of the Management Board retains, in addition to the options which have vested until such termination, also those options which would have vested during a period of two years thereafter.

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

**Performance criterion**

The performance criterion for the LTI 2018 options measures the CAGR of Zalando group's business during the relevant performance period as depicted by the relevant growth parameter described below as the most relevant performance parameter under the company's long-term strategy in 2018. The percentage of vested options of a beneficiary which can be exercised depends on the extent to which a targeted CAGR of at least 15% has been achieved during the performance period. This requires the company to outperform the expected continued strong growth of the European online fashion retail market between 2018 until 2023 by a factor of roughly 2. At the time when the remuneration system for the Co-CEOs was established, the European online fashion retail industry was projected to grow at a CAGR of 7%[8] over a five-year period.

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

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

Performance criterion

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

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

**Waiting period and performance period**

The options can only be exercised after the expiry of a waiting period of four years commencing on the effective date December 1, 2018 for 57% of the options and 4.75 years for the remaining 43% of the options. The performance period relevant for the achievement of the performance criterion equals the waiting period (i.e. 4 and 4.75 years) for the respective options. LTI 2018 options will become exercisable and their performance criterion will be measured for the first time in the year 2022.

**Settlement value and cap**

Upon the exercise of virtual stock options, the beneficiary is entitled to the amount by which the share price as per the exercise date exceeds the exercise price of EUR 47.44.
This amount (the settlement value) is limited to a maximum of EUR 97.14 per option. In order to achieve this maximum amount the company's share price will need to reach EUR 144.58.
The company is entitled to settle its obligation by way of delivery of the respective number of treasury shares as settlement shares equivalent to the settlement value.

Upon the exercise of equity stock options, the beneficiary is entitled to the respective number of new shares of the company equivalent to the amount by which the share price as per the exercise date exceeds the exercise price of EUR 47.44. This amount (the settlement value) is limited to a maximum of EUR 97.14 per option. In order to achieve this maximum amount the company's share price will need to reach EUR 144.58.The company is entitled to settle its obligation in cash or by way of delivery of the respective number of treasury shares as settlement shares equivalent to the settlement value.

**Development of options outstanding**

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

LTI 2018

| | Robert Gentz | | David Schneider | | Rubin Ritter | |
|---|---|---|---|---|---|---|
| | Number of options | Exercise price (in EUR) | Number of options | Exercise price (in EUR) | Number of options | Exercise price (in EUR) |
| **Outstanding as of Jan 1, 2020** | **1,750,000** | **47.44** | **1,750,000** | **47.44** | **1,750,000** | **47.44** |
| Granted during the year | 0 | – | 0 | – | 0 | – |
| Vested during the year | 323,983 | 47.44 | 323,983 | 47.44 | 323,983 | 47.44 |
| Forfeited during the year | 0 | – | 0 | – | 0 | – |
| Waived during the year* | 26,017 | 47.44 | 26,017 | 47.44 | 26,017 | 47.44 |
| Exercised during the year | 0 | – | 0 | – | 0 | – |
| **Outstanding as of Dec 31, 2020** | **1,723,983** | **47.44** | **1,723,983** | **47.44** | **1,723,983** | **47.44** |
| **Exercisable as of Dec 31, 2020** | **0** | **–** | **0** | **–** | **0** | **–** |
| | | | | | | |
| **Outstanding as of Jan 1, 2021** | **1,723,983** | **47.44** | **1,723,983** | **47.44** | **1,723,983** | **47.44** |
| Granted during the year | 0 | – | 0 | – | 0 | – |
| Vested during the year | 350,000 | 47.44 | 350,000 | 47.44 | 175,000 | 47.44 |
| Forfeited during the year** | 0 | – | 0 | – | 875,000 | – |
| Exercised during the year | 0 | – | 0 | – | 0 | – |
| **Outstanding as of Dec 31, 2021** | **1,723,983** | **47.44** | **1,723,983** | **47.44** | **848,983** | **47.44** |
| **Exercisable as of Dec 31, 2021** | **0** | **–** | **0** | **–** | **0** | **–** |
| | | | | | | |
| **Weighted average remaining contractual life of options outstanding (in years)** | | | | | | |
| As of Dec 31, 2020 | | 5.9 | | 5.9 | | 5.9 |
| As of Dec 31, 2021 | | 4.9 | | 4.9 | | 4.9 |
| **Weighted average share price (in EUR) for options exercised in** | | | | | | |
| 2020 | | – | | – | | – |
| 2021 | | – | | – | | – |

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

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

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

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

With respect to negative tax consequences resulting for Jim Freeman as a citizen of the United States of America from the application of certain provisions of Sec. 409A of the U.S. Internal Revenue Code, specific rules of the VSOP 2018 have been amended (the "Restated VSOP 2018") and 250,000 options vested until April 1, 2020 were canceled and settled by the company as cash and share consideration in 2020. The company will indemnify Jim Freeman from the penalty imposed under Sec. 409c of the U.S. Internal Revenue Code on the settlement value and the remaining options under the Restated VSOP 2018, whereby the indemnity in relation to remaining options is capped and will not exceed the amount which would have been payable if the relevant per-share value of the respective remaining options for purposes of calculating the respective penalties had been EUR 55.00.

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

**Development of options outstanding**

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

VSOP 2018

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

*) Waiver in connection with voluntary contribution to COVID-19 pandemic saving measures.
**) Canceled and settled as cash and share consideration to mitigate negative tax consequences under Section 409A of the U.S. Internal Revenue Code.
***) 105,938 options were exercised on May 21, 2021 at EUR 29.84.

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

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

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

Under the VSOP 2017 120,834 options (thereof 37,500 Type A with an exercise price of EUR 25.00 and 83,334 Type B Options with an exercise price of EUR 50.00) continued to vest in quarterly tranches after the appointment as member of the Management Board as of April 1, 2019 and were therefore considered part of the Management Board remuneration. Each virtual option entitled the beneficiary to receive a cash payment of the company, or – at the sole discretion of the company – shares in the company, in the amount equal to the excess of the closing price of the company's shares over the exercise price for the relevant type of virtual options. As of July 1, 2020, the last tranche of VSOP 2017 vested, the contractual performance target which was determined in a transactional net sales CAGR of at least 5% during the waiting period was achieved and the waiting period of three years had expired.

SOP 2014

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

VSOP 2017

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

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

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

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

The SOP 2013 options were granted to the Co-CEOs in the fiscal year 2013. Each SOP 2013 option entitles the beneficiaries to acquire one share. The exercise price is EUR 15.63 per option. The beneficiaries can alternatively request a reduction of the exercise price from EUR 15.63 to EUR 1.00 for all or some of the options already vested. In this case, the number of options is reduced so that it leaves the beneficiary at the time of the request neither better nor worse off economically. The options granted to the beneficiaries vested in monthly tranches over a five-year period. The last tranche of SOP 2013 vested in November 2018. The exercise of the options required the expiry of a four-year waiting period and the achievement of the performance criterion which was determined in a transactional net sales CAGR of at least 5% during the four-year waiting period. The waiting period ended in December 2017 and the performance criterion was fully achieved at the end of this period.

The options of SOP 2011 were granted to the Co-CEOs in the fiscal year 2011. Each SOP 2011 option entitles the beneficiary to acquire one share. The exercise price is EUR 5.65 per option. The options granted to the beneficiaries vested in monthly tranches over a seven-year period and became exercisable upon vesting. The last tranche of the SOP 2011 vested in October 2018. The options can be exercised for an unlimited period of time. As of the reporting date, the options under SOP 2011 have been fully exercised.

#### Development of options outstanding

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

SOP 2011

| | Robert Gentz | | David Schneider | | Rubin Ritter | |
|---|---|---|---|---|---|---|
| | **Number of options** | **Exercise price (in EUR)** | **Number of options** | **Exercise price (in EUR)** | **Number of options** | **Exercise price (in EUR)** |
| **Outstanding as of Jan 1, 2020** | **635,800** | **5.65** | **635,800** | **5.65** | **74,800** | **5.65** |
| Granted during the year | 0 | – | 0 | – | 0 | – |
| Vested during the year | 0 | – | 0 | – | 0 | |
| Forfeited during the year | 0 | – | 0 | – | 0 | – |
| Exercised during the year | 635,800 | 5.65 | 635,800 | 5.65 | 0 | – |
| **Outstanding as of Dec 31, 2020** | **0** | **–** | **0** | **–** | **74,800** | **5.65** |
| **Exercisable as of Dec 31, 2020** | **0** | **–** | **0** | **–** | **74,800** | **5.65** |
| **Outstanding as of Jan 1, 2021** | **0** | **–** | **0** | **–** | **74,800** | **5.65** |
| Granted during the year | 0 | – | 0 | – | 0 | – |
| Vested during the year | 0 | – | 0 | – | 0 | – |
| Forfeited during the year | 0 | – | 0 | – | 0 | – |
| Exercised during the year* | 0 | – | 0 | – | 74,800 | 5.65 |
| **Outstanding as of Dec 31, 2021** | **0** | **–** | **0** | **–** | **0** | **–** |
| **Exercisable as of Dec 31, 2021** | **0** | **–** | **0** | **–** | **0** | **–** |
| **Weighted average remaining contractual life of options outstanding (in years)** | | | | | | |
| As of Dec 31, 2020 | | – | | – | | Unlimited |
| As of Dec 31, 2021 | | – | | – | | – |
| **Weighted average share price (in EUR) for options exercised in** | | | | | | |
| 2020 | | 69.22 | | 69.22 | | – |
| 2021 | | – | | – | | 86.26 |

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

SOP 2013

| | Robert Gentz**,**** | | David Schneider**,**** | | Rubin Ritter*** | |
|---|---|---|---|---|---|---|
| | **Number of options** | **Weighted average exercise price (in EUR)** | **Number of options** | **Weighted average exercise price (in EUR)** | **Number of options** | **Weighted average exercise price (in EUR)** |
| **Outstanding as of Jan 1, 2020*** | **639,540** | **15.63** | **639,540** | **15.63** | **2,730,200** | **15.63** |
| Granted during the year | 0 | – | 0 | – | 0 | – |
| Vested during the year | 0 | – | 0 | – | 0 | – |
| Forfeited during the year | 0 | – | 0 | – | 0 | – |
| Exercised during the year | 0 | – | 0 | – | 800,000 | 1.00 |
| **Outstanding as of Dec 31, 2020** | **532,265** | **1.00** | **532,265** | **1.00** | **1,332,675** | **1.00** |
| **Exercisable as of Dec 31, 2020** | **532,265** | **1.00** | **532,265** | **1.00** | **1,332,675** | **1.00** |
| | | | | | | |
| **Outstanding as of Jan 1, 2021** | **532,265** | **1.00** | **532,265** | **1.00** | **1,332,675** | **1.00** |
| Granted during the year | 0 | – | 0 | – | 0 | – |
| Vested during the year | 0 | – | 0 | – | 0 | – |
| Forfeited during the year | 0 | – | 0 | – | 0 | – |
| Exercised during the year | 532,265 | 1.00 | 532,265 | 1.00 | 925,200 | 1.00 |
| **Outstanding as of Dec 31, 2021** | **0** | **–** | **0** | **–** | **407,475** | **1.00** |
| **Exercisable as of Dec 31, 2021** | **0** | **–** | **0** | **–** | **407,475** | **1.00** |
| | | | | | | |
| **Weighted average remaining contractual life of options outstanding (in years)** | | | | | | |
| As of Dec 31, 2020 | | 2.0 | | 2.0 | | 2.0 |
| As of Dec 31, 2021 | | – | | – | | 1.0 |
| **Weighted average share price (in EUR) for options exercised in** | | | | | | |
| 2020 | | – | | – | | 67.52 |
| 2021 | | 86.26 | | 86.26 | | 90.71 |
| **Measured CAGR for exercised options in 2021 based on transactional net sales (TNS)** | | **26.9%** | | **26.9%** | | **26.9%** |
| Target achievement | | 100.0% | | 100.0% | | 100.0% |

*) For 3,253,800 options, Rubin Ritter used the contractually agreed provision to reduce the exercise price to EUR 1.00 in 2018 and 2020. This reduced the number of these options to 2,503,246, of which 200,000 were exercised in 2018, 170,571 in 2019, 800,000 in 2020 and 925,200 in 2021 at EUR 1.00. For 639,540 options, Robert Gentz and David Schneider each used the contractually agreed provision to reduce the exercise price to EUR 1.00 in 2020. This reduced the number of these options to 532,265.

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

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

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

## Further information pursuant to Section 162 AktG

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

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

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

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

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

The service agreements of the members of the Management Board which were concluded before the implementation of the remuneration system 2021 do not include malus or clawback provisions. This does not affect the applicable legal situation regarding any claims for damages on the part of the company against the Management Board members in the event of culpable breaches of duty (such as according to Section 93 (2) AktG).

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

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

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

**Severance entitlements upon premature termination**

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

**Entitlement upon death and permanent incapacity**

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

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

**Treatment of outstanding variable remuneration**

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

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

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

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

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

**Entitlements upon a change of control**

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

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

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

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

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

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

**Post-contractual non-compete clause**

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

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

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

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

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

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

## 1.4.6 Remuneration of Supervisory Board members

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

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

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

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

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

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

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

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

Remuneration of the members of the Supervisory Board

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

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

## 1.4.7 Comparative presentation of the development of the remuneration

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

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

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

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

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

Berlin, February 28, 2022

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

Cristina Stenbeck Mariella Röhm-Kottmann

## Independent auditor’s report

To ZALANDO SE

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

**Responsibilities of the executive directors and the supervisory board**

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

**Auditor’s responsibility**

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

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

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

**Opinion**

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

### Other matter – formal audit of the remuneration report

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

### Limitation of liability

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

Berlin, February 28, 2022

Ernst & Young GmbH
Wirtschaftsprüfungsgesellschaft

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

# 1.5 The Zalando share – 2021 in review

- Share included in the DAX as of September 2021
- Increased free-float due to share distribution by Kinnevik AB

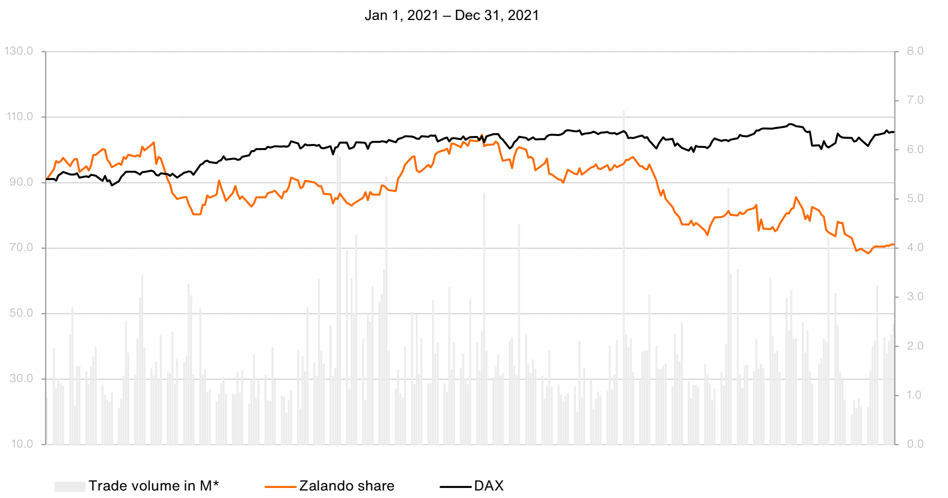
## 1.5.1 Capital markets and share price development

Global stock markets saw a generally positive development in 2021. In this environment, the leading German stock market index DAX reached a new all-time high of 16,251 points in December amid solid cyclical recovery, continued low real interest rates and despite supply-chain disruptions affecting multiple sectors (e.g. automotive industry due to lack of semiconductors, fashion industry due to lockdowns in Vietnam and power cuts in China). While inflation rates significantly increased in the second half of 2021 and are expected to last into 2022, longer-dated real yield rates (i.e. nominal bond prices minus inflation) continued to be anchored at very low levels, fueling positive market dynamics.

At the beginning of the year, the Zalando share stood at EUR 91.06. The share was able to carry over its good momentum from the prior year into 2021, in line with the positive development of German stock markets. On July 7, the Zalando share reached a new all-time high of EUR 105.70 on the back of an exceptionally strong business performance and subsiding concerns of a stock overhang after Kinnevik AB's stake in Zalando shares had been successfully placed among its own shareholders in May and June. As a result of Kinnevik's share distribution, our free-float increased substantially by around 21 percentage points to 89%. In the months that followed, the Zalando share price lost the gains seen year-to-date, triggered by a sector-rotation away from growth sectors, particularly, e-commerce/digitally enabled companies' stocks into value sectors, as the financial and operational performance started to normalize with vaccination campaigns gaining speed, restrictions being lifted and economies starting to re-open. Expectations of rising interest rates further contributed to a relative underperformance of growth stocks due to a relatively higher effect on valuation discount rates. The Zalando share closed the year 22% lower at a price of EUR 71.14, however, outperforming its peer group[9] in the fashion e-commerce vertical.

9) Peer Group consists of Asos, About You, Boohoo, Boozt, Farfetch and Next.

## Development of the Zalando share and DAX




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

## Share performance 2021

| | |
|---|---|
| Opening price on Jan 4, 2021 | EUR 91.06 |
| High 2021 (July 7) | EUR 105.70 |
| Low 2021 (December 20) | EUR 68.42 |
| Closing price on Dec 30, 2021 | EUR 71.14 |
| Performance 2021 | -21.8% |
| Average daily trading volume 2021 (shares)* | 1.8m |
| Average daily trading volume 2021 (in EUR)* | EUR 148.0m |

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

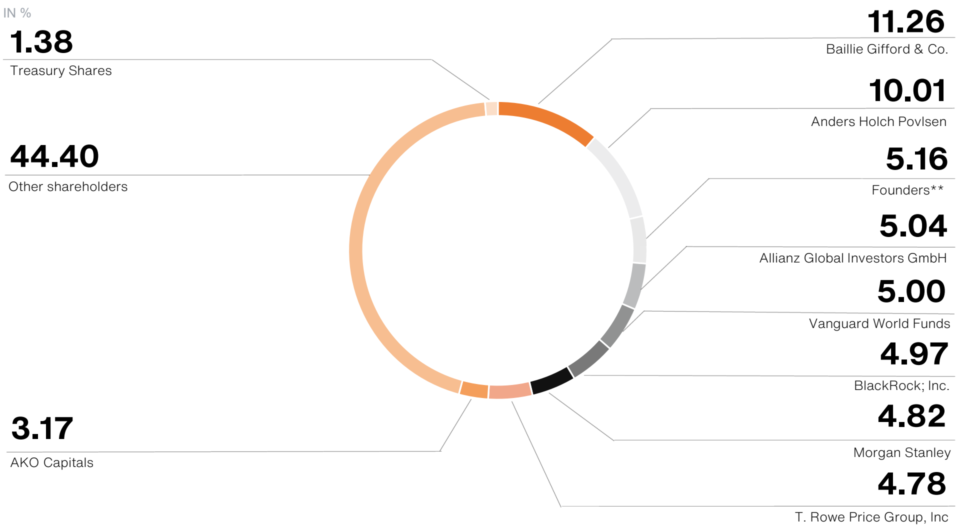
## The Zalando share

| | |
|---|---|
| Type of shares | Ordinary bearer shares with no par value ("Stückaktien") |
| Share capital | EUR 262,022,094 |
| Total number of shares outstanding (Dec 31, 2021) | 262,022,094 |
| ISIN | DE000ZAL1111 |
| WKN | ZAL111 |
| Bloomberg | ZAL GR |
| Thomson Reuters | ZALG.F |

## 1.5.2 Shareholder structure

During 2021, the shareholder structure underwent significant change. The most important change was the distribution by our former single largest shareholder Kinnevik AB of its full shareholding. On February 17, 2021, Kinnevik AB announced the placement of 54.4 million shares (equivalent to 21.27% [10] of the issued share capital of ZALANDO SE) to its own shareholders via a redemption shares trading. This distribution followed prior partial sales of Kinnevik AB in June 2020 and September 2019 of Zalando shares to institutional investors through an accelerated bookbuilding process. Kinnevik's distribution was driven by its desire to increasingly diversify its portfolio and to focus on unlisted, early stage investments. Kinnevik successfully completed the distribution on June 23, 2021. Following those changes in the shareholder structure, the Zalando shares in free-float increased to 88.6%.

Shareholder structure in percent as of Dec 31, 2021*




*) 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, 2021.
**) Aggregate shareholding of the founders.

## 1.5.3 Research coverage

By the end of 2021 the Zalando share was covered by 31 research analysts from Germany and abroad (year-end 2020: 31). This ensures a continued high capital market awareness of the Zalando share.

10) As of June 22, 2021, when Kinnevik announced that it had completed distribution of its shareholding to its own shareholders.

Institutions that cover Zalando

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

## 1.5.4 Stock indices

On September 20, 2021, Zalando joined the DAX index, Germany's prime stock market index, after index revision and expansion from 30 to 40 stocks. The Zalando share belongs to various key indices (see selection below), raising the visibility of and trading volume in the Zalando share. DAX membership came just 13 years after foundation, having been included in the M-DAX since 2015. With a weighting of 1.16%, Zalando was ranked 25 in the DAX index at the end of 2021. Additional visibility is granted by the listing in the DAX 50 ESG as well as the FTSE4Good Index Series, which has been reconfirmed following the December 2021 index review, after being named an index member for the first time in 2019. Zalando is now also included in the STOXX Global ESG Leaders indices. The index family offers a representation of the leading global companies in terms of environmental, social and governance criteria, based on ESG indicators provided by Sustainalytics.

Selection of stock indices

| **Index** | **Region** |
|---|---|
| DAX-40 | Germany |
| DAX 50 ESG | Germany |
| STOXX Europe 600 | Europe |
| STOXX Europe Mid 200 | Europe |
| FTSE4GOOD Index Series | Global |
| STOXX Global ESG Leaders Indices | Global |

### 1.5.5 ESG reporting

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

Zalando has participated in CDP's climate change questionnaire since 2018. CDP is an international rating agency and provider of non-financial information for investors with a focus on climate-related disclosure of governance, strategy, risk management as well as metrics and targets. In 2021 it represented more than 590 investors with over USD 110tn in assets and over 13,000 companies with 64% of global market capitalization. Our efforts in reducing the company's GHG emissions, working towards the science-based targets we set in line with the pathway to 1.5°C address some of our improvement opportunities that we highlighted in our 2021 CDP climate change report which refers to the financial year 2020. Zalando achieved the rating score A-, thus placing us among the 25% of companies that reached leadership level in our activity group Discretionary Retail. This is the second year that Zalando reaches leadership level with its CDP climate change report. In addition Zalando was again included in the CDP Supplier Engagement Leaderboard for its engagement with suppliers to tackle Scope 3 emissions.

Zalando continued to be included in the MSCI ESG Rating, Sustainalytics, FTSE Russell ESG and ISS ESG. The company improved its overall MSCI ESG rating score from A to AA (in a range from CCC to AAA). In the MSCI Universe this places us among the 20% best performing companies worldwide in the category Retail – Consumer Discretionary.

We were also able to maintain our Prime Status for the second year in a row in the ISS ESG Corporate Rating, reaching a B-score, a very high transparency level as well as Decile Rank 1 in the category Industry Retail, which means we are among the Industry Leaders in our category. With a risk score of 13.8 in the ESG Rating Sustainalytics we kept our low risk level the third year in succession.

To provide the capital markets with more detailed information on our ESG performance, this year Zalando published its second stand-alone sustainability progress report that references the international GRI sustainability reporting standards. For the first time, we integrated Sustainability Accounting Standards Board (SASB) guidelines in our sustainability reporting and referred to the United Nations Sustainable Development Goals (SDGs) for the first time.
In 2021, we also published our first report on the recommendations of the Task Force on climate-related Financial Disclosures (TCFD). The report (covering the financial year 2020) is available on our corporate website.

Additional information with regards to non-financial topics can also be found in our second Diversity & Inclusion report do.BETTER 2021.

### 1.5.6 Annual general meeting

Zalando's annual general meeting was held virtually without the physical presence of shareholders or their representatives on May 19, 2021 at the Zalando headquarters in Berlin.

A total of 86.7 % of the voting share capital was represented at this main shareholders event. The required majority of shareholders approved all of the resolutions proposed by the company's Management and Supervisory Board. Resolutions included the resolution on the new management remuneration scheme.

**From left to right:**
**Rubin Ritter,** former Co-CEO, **Robert Gentz,** Co-founder and Co-CEO, **David Schneider,** Co-founder and Co-CEO, **Christian Steinke** (Notary) and **Mariella Röhm-Kottmann,** member of the Supervisory Board during the annual general meeting 2021.

## 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 do so by engaging with institutional investors in numerous one-on-one meetings, calls, roadshows and conferences around the globe. All of these events in 2021 took place in a virtual environment.

Throughout 2021, our Management Board and the Investor Relations Team expanded their contacts and deepened their relationships with investors at 20 national and international conferences and many individually hosted virtual meetings across the globe. In addition, at the beginning of 2021 we roadshowed two days with the chairperson of the Supervisory Board in major financial cities across Europe to discuss governance related topics with institutional investors.

On our sixth Capital Markets Day, which was hosted as a fully virtual event on March 16, 2021, the Management Board and Senior Management reiterated our 2019 strategy 'Starting Point for Fashion', presented new group strategic and financial targets as well as resharpened our focus on becoming a sustainable fashion platform with a net-positive impact for people and the planet. With more than 500 international participants, the event was very well attended. The event was webcasted and all presentations and audio-webcasts are available on our corporate website.

# Combined management report

# 2.1 Background to the group

## 2.1.1 Business model

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

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

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

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

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

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

Our two-sided platform is based on our existing specific capabilities and infrastructure.
Our own logistics network is the biggest purpose-built logistics network for fashion in Europe with 12 fulfillment centers across seven countries. We have already cumulatively invested more than EUR 1bn in this network and we will add more than seven new fulfillment centers by

2025. In addition, we have strong know-how in technology and data. We have a team of over 2,000 software engineers and data scientists, focusing on improving and innovating the experience for our customers and the services for our partners.

## 2.1.2 Group structure

### Governance and control

The Zalando group is managed by its ultimate parent company ZALANDO SE, which was founded in 2008. With its registered office in Berlin, Germany, ZALANDO SE bundles all management functions and generates the vast majority of group revenue. In addition to the parent company, Zalando is comprised of 47 subsidiaries that operate, *inter alia*, in the areas of fulfillment, customer service, payments, product presentation, advertising, marketing, software development, integration services and private labels. ZALANDO SE has full control over all subsidiaries, either indirectly or directly. Supplementary information concerning the separate financial statements is presented in section 2.6.

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

Consisting of nine members, the Supervisory Board not only appoints but regularly advises the Management Board and monitors its management activities. The Supervisory Board is directly involved in decisions of fundamental importance to the company. In particular, it reviews the financial statements and management reports, and it reports on the audit to the annual general meeting. Zalando's Supervisory Board consists of long-term investors, employees and independent experts.

### Group segments

ZALANDO SE's internal management structure is based on a sales channel perspective. Our main sales channel continues to be the Fashion Store (Zalando app and website). The Offprice segment includes the sales channels Zalando Lounge (Zalando Lounge app and website), brick-and-mortar outlet stores and B2B overstock management. In addition, Zalando's Other segment bundles the emerging businesses Zalando Marketing Services, the personal style advice service Zalon and the integrator business Tradebyte.

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

## 2.1.3 Group strategy

### Our starting point vision and platform strategy

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

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

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

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

## Market environment

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

## Strategic priorities

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

### Consumers

**Customer acquisition**

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

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

**Country Expansion**

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

**Customer retention by improving our propositions**

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

Improving our core fashion shopping experience

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

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

Elevating distinct propositions

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

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

Seamless convenience

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

## Partners

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

### Wholesale

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

### Partner Program and Connected Retail

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

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

**Zalando Fulfillment Solutions (ZFS)**

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

**Zalando Marketing Services (ZMS)**

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

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

**People and planet**

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

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

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

## 2.1.4 Non-financial report

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

## 2.1.5 Management system

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

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

- **Site visits[11]:** The number of series of page views from the same device and the same source (via websites, mobile sites, tablet sites or apps) during a relevant period are the site visits. Increasing site visits drive GMV and revenue growth through a higher number of orders and higher advertising revenue.
- **Active customers:** The Zalando group measures its success by the number of active customers. Each customer that has placed at least one order within the last 12 months (based on the reporting date) is considered active.
- **Number of orders:** In addition to GMV and revenue, the number of orders placed is a key performance indicator (KPI) for the management of the group. This indicator is monitored independently from the value of merchandise and is a key driver of growth.
- **Average GMV per active customer:** The average value of all merchandise sold to active customers after cancellations and returns and including VAT, over the last 12 months.
- **Average orders per active customer:** The average number of orders placed by active customers during the last 12 months, irrespective of returns.

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

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

### 2.1.6 Research and development

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

In 2021, the group recognized development costs of EUR 83.6m (prior year: EUR 65.6m), of which EUR 44.3m relates to assets under development (prior year: EUR 30.8m). The increase in development costs is attributable to the increasing number of markets and customer propositions as well as the ongoing improvements and continued innovation of existing products and processes in pursuit of Zalando's vision to be the Starting Point for Fashion.

Research costs were immaterial.

# 2.2 Report on economic position

## 2.2.1 Macroeconomic and sector-specific environment

www.euromonitor.com

With much of the world under COVID-19-related restrictions through 2020 and 2021, the European fashion industry has faced exceptionally challenging conditions. However, after a severe decline in the total volume of fashion sales in Europe during 2020, the market rebounded strongly over the course of 2021. Fashion sales in Europe in fiscal year 2021 amounted to EUR 386bn, an increase of 7.1% compared to 2020.[12] Yet, the market remained 15% below the pre-pandemic level of 2019.

Against the backdrop of a recovering fashion market, e-commerce sales continued to outgrow stationary retail sales, despite a higher prior-year baseline. According to data from the management consulting firm, McKinsey, the European online fashion market grew to a total trading volume of EUR 116bn in 2021, representing an increase of 24%. The online channel therefore represented roughly 30% of the overall European fashion market, compared to 26% the year before.[13]

Similarly, the German fashion market, the largest in Europe, recovered throughout 2021, with a trading volume of EUR 67bn, reflecting an increase of 6.3% compared to the prior year.[14]

## 2.2.2 Business development

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

In 2021, we pursued growth through new customer acquisition in new and existing markets and through continuous investments in our customer proposition, including assortment, convenience, fashion services and digital experience to create deep and lasting customer relationships. Moreover, we expanded into six new markets (Croatia, Estonia, Latvia, Lithuania, Slovakia and Slovenia). At the same time, we are progressing with our multi-proposition growth strategy and goal to create loyal and deep customer relationships. We expanded Zalando Plus, our membership program, internationally to three additional markets (France, the Netherlands and Italy) and launched a new benefit, Plus Early Access, enabling Zalando Plus members to shop hot releases in the Fashion Store before everyone else and to get early access to selected campaigns at Zalando Lounge. In addition, we launched new features on

12) Euromoinitor, Europa
13) McKinsey, The state of fashion 2022
14) Euromonitor, Deutschland

our platform to further improve the personalized browsing experience, with 'In Your Sizes' (based on Size & Fit algorithms) and 'Your Brands' browse filters for example as well as a values-based browsing experience. The latter enables more customers to shop in a more sustainable way based on the causes and values they care about, and more easily understand the important work that our brand partners are doing to scale more sustainable practices.

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

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

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

In order to fully win the hearts and minds of our customers, we constantly invest in our do.MORE sustainability strategy, which we launched in fall 2019, with our vision to become a sustainable fashion platform with a net-positive impact for people and the planet. To shape our industry's future for the better, we have set ourselves six specific focus areas for change in our sustainability strategy: carbon footprint, packaging, sustainability assortment, circularity, human rights, and skilling. We switched the heating fuel in our German fulfillment centers to 100% biogas and engaged intensely with our partners to reduce their carbon emissions.
In addition, we have made strides regarding our ambition to apply the principles of circularity.

This will require new ways of thinking and collaborating, and we recently progressed with investments and new pilots that will help us to identify more scalable solutions. For example, in the design and manufacture stage, we recently scaled a collection from our private label ZIGN with all products being designed for circularity, meaning that products are made from safe, recycled or renewable materials, and are made to last longer, to be reused and to be recycled. We continue to develop our Pre-owned proposition, through which customers can reuse and resell their clothes in a convenient way.

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

## 2.2.3 Economic situation

### Financial performance of the group

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

Further information consolidated statement of comprehensive income

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

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

## Condensed consolidated income statement

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

## Adjusted EBIT

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

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

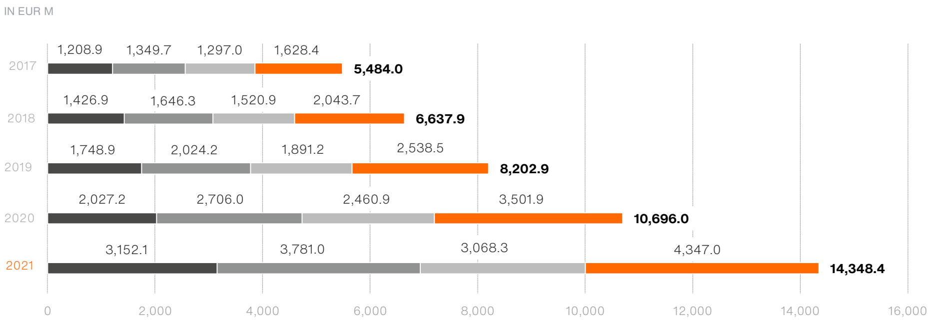
Key figures*

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

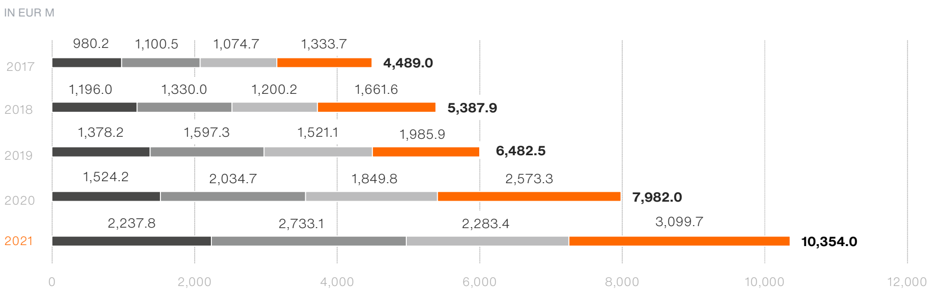
*) For an explanation of the key performance indicators, please refer to the glossary.
**) Due to a change in consent management following the GDPR introduction, some of the data is estimated using a statistical method.

## Results of the operations[15]

GMV by quarter (2017 – 2021)




Revenue by quarter (2017 – 2021)




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

Growth has been fueled – as described above – by the continued shift of customer demand from offline to online in light of lockdown restrictions put in place in most European countries during the first half year. The strong Partner Program performance in 2021 clearly reflects the success of our platform transition efforts. We saw our Partner Program grow strongly as brands, and retailers increased their online activities and connected more stock to the Zalando platform, in order to reach their customers across Europe. More than 500 new partners joined the Partner Program in 2021. The strong growth of our Partner Program, which allowed us to offer our customers an even broader and more attractive assortment, led to an increased Partner Program share in GMV and also contributed to the strong increase of GMV.

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

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

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

The development of GMV and revenue over the course of the year reflects the seasonality of the business. Typically, the fall and winter collections are sold at higher prices than the spring and summer goods. This means that GMV and revenue levels tend to be higher in the second half of the fiscal year than the first half. In addition, the second and fourth quarters tend to be stronger than the first and third quarters respectively, as fashion sale periods are typically particularly pronounced towards season end.

In order to assess the operating performance of the business, Zalando's management also considers adjusted EBIT and the adjusted EBIT margin before expenses for equity-settled share-based payments, restructuring costs and non-operating one-time effects. In addition to a very strong growth momentum, we recorded an adjusted EBIT of EUR 468.4m in 2021 (prior year: EUR 420.8m), representing a 4.5% margin (prior year: 5.3%). Profitability was supported by a strong topline performance and lower fulfillment costs relative to sales, driven by higher utilization rates across our European logistics network and an ongoing return rate benefit.

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

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

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

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

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

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

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

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

## Results by segment

The condensed segment results for 2021 highlight in particular the strong growth in the Fashion Store segment and the outstanding performance of the Offprice segment.
The development of revenue and earnings reported by the segments of the Zalando group can be summarized as follows:

Segment results of the group 2021

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

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

Fashion store results by region 2021

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

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

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

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

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

The EBIT margin in all other segments improved by 8.5 percentage points to 2.1% in 2021 in comparison to the prior-year period, mainly driven by the fact that no restructuring costs were incurred in 2020.

**Adjusted EBIT by segment**

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

Share-based compensation expenses per segment

| IN EUR M | Jan 1 – Dec 31, 2021 | Jan 1 – Dec 31, 2020 | Change |
|---|---|---|---|
| **Expenses for equity-settled share-based payment** | **57.2** | **53.8** | **3.4** |
| Fashion Store | 45.8 | 44.8 | 1.0 |
| Offprice | 7.7 | 5.7 | 2.0 |
| All other segments | 3.8 | 3.3 | 0.4 |

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

## Cash flows

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

Condensed statement of cash flows

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

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

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

Cash outflow from investing activities is mainly impacted by capital expenditure (capex), being the sum of the payments for investments in property, plant and equipment and intangible assets, amounting to EUR 332.9m (prior year: EUR 250.0m). Capex primarily included investments in the logistics infrastructure, relating to the fulfillment centers in the Netherlands, Poland, Germany and France, as well as capital expenditures on internally developed software. In 2020, cash flow from investing activities contained an inflow of cash in the form of payments received for the sale of undeveloped land on the Zalando Campus of EUR 30.3m, and from the sale of a subsidiary of EUR 6.0m and warehouse equipment (Brieselang, Germany) of EUR 2.4m.

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

Cash flow from financing activities is EUR -639.8m (prior year: EUR 1,354.1m). The year-on-year difference of EUR 1,993.9m was attributable to cash outflows of EUR 375.0m in connection with the repayment of the revolving credit facility (RCF) in 2021, which had originally been drawn in Q1 2020. Another factor affecting the development of the cash flow from financing activities was the spend for share buybacks of EUR 200.0m in May, June and July 2021. The main reason for the difference in comparison to the prior year was, however, the cash inflow from the issue of convertible bonds in August 2020. In Q3 2020, we placed two tranches of unsubordinated, unsecured convertible bonds with an aggregate principal amount of EUR 1,000.0m, which resulted in cash inflows from financing activities of EUR 994.0m.

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

### Credit facility

On December 15, 2016, ZALANDO SE entered into a revolving credit facility for an amount of EUR 500.0m with a group of banks. This facility can be drawn in various currencies. The revolving credit facility can be utilized for general business purposes (including acquisitions) as well as for guarantees. The facility expires on December 15, 2023. As of December 31, 2021, an amount of EUR 375.0m, originally drawn in 2020, was paid back under the revolving credit facility. An amount of EUR 110.3m was utilized for bank guarantees and letters of credit.

## Financial position

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

### Assets

| IN EUR M | Dec 31, 2021 | | Dec 31, 2020 | | Change | |
|---|---|---|---|---|---|---|
| Non-current assets | 1,901.4 | 27.6% | 1,560.0 | 33.6% | 341.4 | 21.9% |
| Current assets | 4,995.6 | 72.4% | 4,934.8 | 66.4% | 60.8 | 1.2% |
| **Total assets** | **6,897.0** | **100.0%** | **6,494.8** | **100.0%** | **402.1** | **6.2%** |

### Equity and liabilities

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

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

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

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

Key components of the software used by the group are developed internally. This ensures that the software is aligned with the operating processes and systems in the best possible way. For example, order and fulfillment processes are supported using internally developed software. In fiscal year 2021, additions related to capitalized development costs as well as to prepayments and assets under development amounted to EUR 87.8m (prior year: EUR 98.4m), of which EUR 48.5m is contained in prepayments and assets under development (prior year: EUR 63.6m).

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

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

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

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

Trade payables and similar liabilities rose from EUR 2,050.5m in 2020 to EUR 2,437.0m in the reporting period. The increase is largely due to deliveries of merchandise in light of the higher business volume. Moreover, under reverse factoring agreements, suppliers' claims against Zalando totaling EUR 599.8m were transferred to various factors as of December 31, 2021 (December 31, 2020: EUR 449.8m). These items were recognized in the statement of financial position under trade payables and similar liabilities.

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

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

### Overall assessment

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

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

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

## 2.2.4 Employees

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

# 2.3 Risk and opportunity report

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

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

## 2.3.1 Risk and opportunity management system

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

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

RMS elements


### RMS objectives

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

## Risk and opportunity identification and monitoring

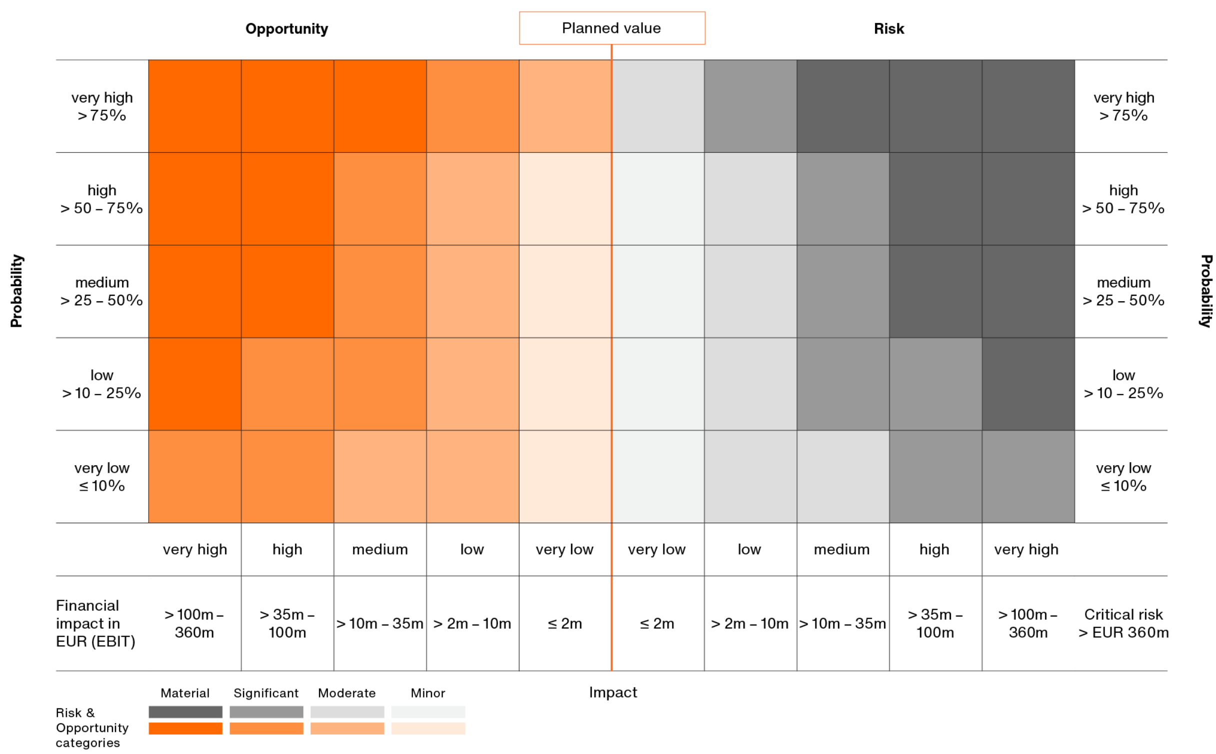
Using multiple instruments, such as workshops and self-assessments, the identification and assessment of risks and opportunities is carried out by both the risk and opportunity owners during day-to-day operations and the Risk Management Team on a half-yearly basis. Moreover, we have implemented an ad-hoc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

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

## Risk and opportunity assessment

All single risks and opportunities identified are evaluated with regard to their probability of occurrence and their potential impact based on a one-year time horizon. The identified single risks and opportunities are finally aggregated into 19 company-specific clusters using Monte-Carlo simulation. The outcome of the aggregation of each cluster is displayed using the following risk and opportunity matrix:

Risk and opportunity matrix



The probability of occurrence represents the possibility that a specific impact for a risk or an opportunity may materialize within the defined one-year time horizon. The impact assessment is conducted on quantitative or qualitative scales. The quantitative scale refers to the potential financial impact on profit (EBIT) while the qualitative scale considers the impact on our reputation. We separately track risks that exceed EUR 360m as business critical, since they might threaten us as a going concern.

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

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

### Risk and opportunity control

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

### Risk and opportunity management improvements and reporting

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

### System of internal financial reporting controls

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

These processes, the risks relevant for financial reporting as well as the controls mitigating these risks are analyzed and documented. A cross-process risk and control matrix contains relevant controls, including a description and type of the control, frequency with which the control is carried out, the mitigated risk and the person responsible. The control mechanisms implemented affect multiple processes and thus frequently overlap. These mechanisms, among other things, include determining principles and procedures, defining processes and controls, introducing approval and testing plans and guidelines. The system of internal controls is reviewed continuously and improved based on regular reviews by the Compliance & Risk Team in the Finance department, as well as risk-based assessments performed by Internal Audit.

## 2.3.2 Illustration of risks

Overall, we identified no risks or risk clusters that might threaten ZALANDO SE as a going concern. The following table provides an overview of our risk clusters and a comparison with 2020. Please note that due to their lack of materiality, financial risks (counterparty risk, liquidity risk as well as currency and interest rate risk) are not listed separately in the risk and opportunity report but are addressed in the Other notes (see section 3.5.8).

Overview risk clusters

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

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

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

## Competitive environment

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

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

## Logistics

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

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

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

## Buying & sales

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

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

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

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

Apart from the effects described above, we are exposed to the regular seasonal effects of the business. We approach this weather-induced uncertainty with more flexible procurement and planning processes as well as expanding our product range in non-seasonal areas and increasing the share of our Partner Business.

## IT security

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

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

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

## User experience

To meet the rising and changing needs and expectations of our customers and realize market opportunities, innovative and appropriate adjustments to the user experience are constantly required. Neglecting the necessary changes or inadequate implementation of such measures can lead to customer migration away from Zalando, followed by revenue losses.

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

### Data protection

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

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

## 2.3.3 Illustration of opportunities

Given the definition of an opportunity as a positive deviation from planned values, we identified no material opportunity that could result in us significantly overachieving our ambitious long-term goals. Going outside the materiality boundary, our major initiatives such as deepening customer relationships, enabling partners on our platform, as well as our market expansion and our do.MORE strategy continue to be seen as key drivers that put us in a position to seize opportunities and provide lasting support for our growth targets.

### Deepening customer relationships

We strongly believe in customer centricity and therefore focus on building long-term customer relationships to become the Starting Point for Fashion for a growing number of customers across Europe. Becoming the Starting Point for Fashion means for us being at the front and center of our customers’ minds when it comes to fashion, beauty and lifestyle. In 2021, strong customer acquisition and the continued development of existing customer relationships were key growth drivers.

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

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

## Strategic partnerships

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

Our Partner Program enables brands and retailers to sell their merchandise via our platform, while they maintain full control over their offer, content and pricing. Our online brand shops are at the heart of this approach, targeted at enabling partners to interact directly with customers and build loyalty for their brand.

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

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

To support this journey, we are offering holistic technology solutions tailored to partners' specific needs including integration services, Zalando Marketing Services (ZMS) as well as Zalando Fulfillment Solutions (ZFS).

Via our ZMS business we offer digital technologies and services to help our partners increase their reach, brand impact and better understand their customers' preferences. ZMS will continue to invest in its proposition, aiming to offer a full range of scalable, effective and efficient performance and brand marketing services.

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

## Local market focus

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

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

## Sustainable fashion and lifestyle platform

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

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

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

# 2.4 Outlook

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

## 2.4.1 Future overall economic and industry-specific situation

In 2022, the European fashion market is expected to continue its recovery from the significant hit the market has taken after the COVID-19 pandemic arrived in Europe in 2020 and to increase its growth by 9% to EUR 420bn.[17] For Germany, we believe the recovery is to come at a slower pace at 8.8%[18] with a trade volume of EUR 73bn[19], given that German fashion sales already recovered quite strongly during 2021 and are lagging pre-pandemic sales volumes by only 10%, whereas all other markets in Europe are still 13%[20] behind their pre-pandemic level.

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

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

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

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

16) McKinsey, The state of fashion 2022
17) Euromonitor, Europe excl. Russia
18) Euromonitor, Europe excl. Russia
19) Euromonitor, Europe excl. Russia
20) Euromonitor, Europe excl. Russia

## 2.4.2 Future development of the group

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

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

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

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

Consequently, Zalando expects to grow GMV in the range of 16% to 23% (EUR 16.6bn–EUR 17.6bn) for fiscal year 2022. In line with our platform transition strategy and increasing share of the Partner business, we expect revenue growth to trail GMV growth, resulting in revenue growth of 12% to 19% (EUR 11.6bn–EUR 12.3bn).[21] Similar to last year, this growth will not be evenly distributed across quarters. We expect lower than usual year-on-year growth in the first half and a significant reacceleration in the second half of 2022.

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

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

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

### 2.4.3 Overall assessment by the Management Board of ZALANDO SE

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

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

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

# 2.5 Supplementary management report to the separate financial statements of ZALANDO SE

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

## 2.5.1 Business activity

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

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

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

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

## 2.5.2 Economic situation of ZALANDO SE

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

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

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

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

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

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

Revenue of ZALANDO SE by geographical region

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

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

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

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

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

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

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

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

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

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

Current and deferred taxes are presented in the following table.

Income taxes

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

## Net assets and financial position

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

Assets

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

Equity and liabilities

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

The total assets of ZALANDO SE rose by 3.4% primarily due to a further increase in financial assets. The assets of ZALANDO SE mainly consist of financial and current assets, specifically securities and cash, shares in affiliated companies as well as inventories and receivables. Equity and liabilities comprise equity and current and non-current liabilities and provisions.

In fiscal year 2021, additions to non-current assets mainly related to intangible assets (EUR 68.4m) and financial assets (EUR 542.6m), relating mainly to loans to affiliated companies (EUR 454.1m) and shares in affiliated companies (EUR 88.5m). Disposals mainly related to loans to affiliated companies (EUR 274.9m). Investments in financial assets were primarily made to finance infrastructure investments and the expansion of business in subsidiaries.

The decrease in current assets in fiscal year 2021 was mainly driven by cash on hand and bank balances which decreased by EUR 224.2m mostly due to the investments made in loans to affiliated companies. This was partly offset by the increase in inventories, which increased by EUR 164.1 m driven by the increase in business. Inventories mainly comprised merchandise used in the core operational business of ZALANDO SE.

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

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

Under reverse factoring agreements, suppliers' claims against Zalando totaling EUR 599.8m were transferred to various factors as of December 31, 2021 (December 31, 2020: EUR 449.8m). These are recognized in the statement of financial position under trade payables and similar liabilities.

Regarding the liquidity and the financial development of ZALANDO SE we refer to the financial development of the Zalando group. The financial development of the Zalando group basically reflects the financial development of ZALANDO SE. Furthermore, ZALANDO SE is responsible for the cash management of the Zalando group.

In fiscal year 2021, Zalando generated a positive cash flow from operating activities of EUR 615.4m (prior year: EUR 500.1m). Despite a decrease in income (from EUR 170.0m in the prior year to EUR 138.5m in the reporting year) cash flow from operating activities increased largely due to a higher cash inflow from trade payables and intercompany liabilities.

The cash flow from investing activities in fiscal year 2021 was mainly driven by increases in loans to affiliated companies and capital increases in subsidiaries that were used to invest in the fulfillment infrastructure, as well as to further expand the respective business segments of the subsidiaries.

The cash flow from financing activities mainly contains cash outflows from the repayment of bank loans and from share buybacks. Cash and cash equivalents consist of cash on hand and bank balances as well as fixed-term deposits at financial institutions and in money market funds due within three months.

### 2.5.3 Risks and opportunities

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

## 2.5.4 Outlook

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

Berlin, February 28, 2022

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

# Consolidated financial statements

# 3.1 Consolidated statement of comprehensive income

## Consolidated income statement

| IN EUR M | Notes | Jan 1 – Dec 31, 2021 | Jan 1 – Dec 31, 2020 |
|---|---|---|---|
| Revenue | (1.) | 10,354.0 | 7,982.0 |
| Cost of sales | (2.) | –6,027.7 | –4,587.8 |
| **Gross profit** | | **4,326.2** | **3,394.2** |
| Fulfillment costs | (3.) | –2,599.3 | –2,055.1 |
| Marketing costs | (3.) | –930.3 | –660.9 |
| Administrative expenses | (4.) | –393.2 | –319.2 |
| Other operating income | (5.) | 32.8 | 26.7 |
| Other operating expenses | (6.) | –11.5 | –18.7 |
| **Earnings before interest and taxes (EBIT)** | | **424.7** | **367.0** |
| Interest and similar income | | 4.2 | 16.1 |
| Interest and similar expenses | | –59.3 | –58.1 |
| Result of investments accounted for using the equity method | | – | 0.1 |
| Other financial result | | –15.4 | –6.7 |
| **Financial result** | **(7.)** | **–70.5** | **–48.6** |
| **Earnings before taxes (EBT)** | | **354.3** | **318.5** |
| Income taxes | (8.) | –119.7 | –92.4 |
| **Net income for the period** | | **234.5** | **226.1** |
| thereof net income attributable to the shareholders of ZALANDO SE | | 234.5 | 226.1 |
| thereof net income attributable to non-controlling interests | | 0.0 | 0.0 |
| Net income for the period as a percentage of revenue | | 2.3% | 2.8% |
| Basic earnings per share (in EUR) | (9.) | 0.91 | 0.90 |
| Diluted earnings per share (in EUR) | (9.) | 0.88 | 0.86 |

## Consolidated statement of comprehensive income

| IN EUR M | Jan 1 – Dec 31, 2021 | Jan 1 – Dec 31, 2020 |
|---|---|---|
| **Net income for the period** | **234.5** | **226.1** |
| **To be recycled to profit or loss in subsequent periods** | | |
| Effective portion of gains/losses from cash flow hedges, net of tax | –19.5 | 8.5 |
| Exchange differences on translation of foreign financial statements | –10.0 | –0.2 |
| Other comprehensive income | –29.5 | 8.3 |
| **Total comprehensive income** | **205.0** | **234.4** |
| thereof total comprehensive income attributable to the shareholders of ZALANDO SE | 205.0 | 234.4 |
| thereof total comprehensive income attributable to non-controlling interests | 0.0 | 0.0 |

# 3.2 Consolidated statement of financial position

Consolidated statement of financial position – assets

| IN EUR M | Notes | Dec 31, 2021 | Dec 31, 2020 |
|---|---|---|---|
| **Non-current assets** | | | |
| Intangible assets | (11.) | 263.0 | 236.0 |
| Property, plant and equipment | (12.) | 959.4 | 810.1 |
| Right-of-use assets | (13.) | 584.2 | 479.8 |
| Financial assets | (14.) | 78.1 | 11.9 |
| Deferred tax assets | (8.), (27.) | 11.2 | 15.4 |
| Non-financial assets | (14.) | 3.9 | 5.1 |
| Investments accounted for using the equity method | (15.) | 1.7 | 1.7 |
| | | 1,901.4 | 1,560.0 |
| **Current assets** | | | |
| Inventories | (16.) | 1,547.4 | 1,361.2 |
| Trade and other receivables | (17.) | 727.4 | 602.5 |
| Other financial assets | (18.) | 49.8 | 32.0 |
| Other non-financial assets | (18.) | 383.0 | 295.1 |
| Cash and cash equivalents | (19.) | 2,287.9 | 2,644.0 |
| | | 4,995.6 | 4,934.8 |
| **Total assets** | | **6,897.0** | **6,494.8** |

Consolidated statement of financial position – equity and liabilities

| IN EUR M | Notes | Dec 31, 2021 | Dec 31, 2020 |
|---|---|---|---|
| **Equity** | | | |
| Issued capital | | 258.7 | 253.1 |
| Capital reserves | | 1,285.9 | 1,428.9 |
| Other reserves | | –36.8 | –7.3 |
| Retained earnings | | 711.1 | 476.6 |
| Equity of shareholders of ZALANDO SE | | 2,219.0 | 2,151.3 |
| Non-controlling interest | | –0.2 | –0.2 |
| | (20.) | 2,218.8 | 2,151.1 |
| **Non-current liabilities** | | | |
| Provisions | (22.) | 54.3 | 47.7 |
| Lease liabilities | (13.) | 579.0 | 443.0 |
| Convertible bonds | (25.) | 895.0 | 873.7 |
| Other financial liabilities | | 14.2 | 15.6 |
| Other non-financial liabilities | | 4.6 | 5.1 |
| Deferred tax liabilities | (8.), (27.) | 33.5 | 19.1 |
| | | 1,580.7 | 1,404.2 |
| **Current liabilities** | | | |
| Provisions | (22.) | 0.0 | 0.5 |
| Lease liabilities | (13.) | 101.0 | 73.7 |
| Borrowings | (25.) | 0.0 | 377.7 |
| Trade payables and similar liabilities | (23.) | 2,437.0 | 2,050.5 |
| Prepayments received | (23.) | 40.6 | 47.1 |
| Income tax liabilities | | 25.2 | 9.6 |
| Other financial liabilities | (24.) | 214.9 | 145.6 |
| Other non-financial liabilities | (24.) | 278.9 | 234.8 |
| | | 3,097.5 | 2,939.5 |
| **Total equity and liabilities** | | **6,897.0** | **6,494.8** |

# 3.3 Consolidated statement of changes in equity

## Consolidated statement of changes in equity 2021

| IN EUR M | Notes | Issued capital | Capital reserves |
|---|---|---|---|
| **As of Jan 1, 2021** | | **253.1** | **1,428.9** |
| 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.) | 6.8 | 2.6 |
| Convertible bonds | (20.) | 0.0 | 0.0 |
| Issue of treasury shares | (20.) | 0.9 | 12.2 |
| Repurchase of treasury shares | (20.) | –2.1 | –197.9 |
| Share-based payments | (21.) | 0.0 | 57.3 |
| Deferred taxes from share-based payments | (27.) | 0.0 | –17.1 |
| **As of Dec 31, 2021** | | **258.7** | **1,285.9** |

## Consolidated statement of changes in equity 2020

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

Consolidated statement of changes in equity 2021

| Other reserves | | | | | |
|---|---|---|---|---|---|
| Cash flow hedges | Currency translation | Retained earnings | Shareholders of ZALANDO SE | Non-controlling interest | Total |
| **-6.7** | **-0.6** | **476.6** | **2,151.3** | **-0.2** | **2,151.1** |
| 0.0 | 0.0 | 234.5 | 234.5 | 0.0 | 234.5 |
| -19.5 | -10.0 | 0.0 | -29.5 | 0.0 | -29.5 |
| **-19.5** | **-10.0** | **234.5** | **205.0** | **0.0** | **205.0** |
| 0.0 | 0.0 | 0.0 | 9.4 | 0.0 | 9.4 |
| 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| 0.0 | 0.0 | 0.0 | 13.1 | 0.0 | 13.1 |
| 0.0 | 0.0 | 0.0 | -200.0 | 0.0 | -200.0 |
| 0.0 | 0.0 | 0.0 | 57.3 | 0.0 | 57.3 |
| 0.0 | 0.0 | 0.0 | -17.1 | 0.0 | -17.1 |
| **-26.2** | **-10.6** | **711.1** | **2,219.0** | **-0.2** | **2,218.8** |

Consolidated statement of changes in equity 2020

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

# 3.4 Consolidated statement of cash flows

Consolidated statement of cash flows

| IN EUR M | | | Notes | Jan 1 – Dec 31, 2021 | Jan 1 – Dec 31, 2020 |
|---|---|---|---|---|---|
| 1 | | Net income for the period | | 234.5 | 226.1 |
| 2 | + | Non-cash expenses from share-based payments | (21.) | 57.3 | 53.8 |
| 3 | - | Cash paid for settlement of claims from share-based payments | | – | –3.5 |
| 4 | + | Depreciation of property, plant and equipment, right-of-use assets and amortization of intangible assets | (11.), (12.) | 235.4 | 214.5 |
| 5 | + | Income taxes | (8.) | 119.7 | 92.4 |
| 6 | - | Income taxes paid, less refunds | | –106.3 | –116.7 |
| 7 | +/- | Increase/decrease in provisions | (22.) | –0.5 | –2.1 |
| 8 | -/+ | Other non-cash income/expenses | | –2.7 | 4.3 |
| 9 | +/- | Decrease/increase in inventories | (16.) | –186.3 | –262.9 |
| 10 | +/- | Decrease/increase in trade and other receivables | (17.) | –125.5 | –139.6 |
| 11 | +/- | Increase/decrease in trade payables and similar liabilities | (23.) | 391.7 | 329.2 |
| 12 | -/+ | Increase/decrease in other assets/liabilities | (14.), (18.), (24.) | –1.1 | 132.1 |
| **13** | **=** | **Cash flow from operating activities** | **(26.)** | **616.2** | **527.4** |
| 14 | + | Proceeds from disposal of property, plant and equipment, intangible assets and financial assets | (12.) | – | 32.7 |
| 15 | + | Payments received from the sale of shares in associated and other companies | | – | 6.0 |
| 16 | - | Cash paid for investments in property, plant and equipment | (12.) | –240.4 | –177.6 |
| 17 | - | Cash paid for investments in intangible assets | (11.) | –92.5 | –72.5 |
| 18 | - | Cash paid for acquisition of shares in associated companies and acquisition of companies and prepayments for such acquisitions | (15.) | – | –31.5 |
| 19 | +/- | Cash received from/paid for investments in term deposits | (18.) | -3.0 | 25.0 |
| **20** | **=** | **Cash flow from investing activities** | **(26.)** | **–335.9** | **–217.8** |
| 21 | + | Cash received from capital increases by the shareholders and stockoption exercises less transaction costs | (20.) | 22.5 | 55.1 |
| 22 | - | Repurchase of treasury shares | (20.) | –200.0 | – |
| 23 | - | Cash repayments of loans | | –377.7 | –2.8 |
| 24 | + | Cash received from loans | (26.) | – | 375.0 |
| 25 | + | Cash received from the issue of convertible bonds less transaction costs | (25.), (26.) | – | 994.0 |
| 26 | - | Cash payments for the principal portion of lease liabilities | (13.) | –84.5 | –67.2 |
| **27** | **=** | **Cash flow from financing activities** | **(26.)** | **–639.8** | **1,354.1** |
| 28 | = | Net change in cash and cash equivalents from cash-relevant transactions | | –359.6 | 1,663.6 |
| 29 | +/- | Change in cash and cash equivalents due to exchange rate movements | | 3.5 | 3.9 |
| 30 | + | Cash and cash equivalents at the beginning of the year | | 2,644.0 | 976.5 |
| **31** | **=** | **Cash and cash equivalents as of Dec 31** | | **2,287.9** | **2,644.0** |

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

Cash – relevant interests

| IN EUR M | Jan 1 – Dec 31, 2021 | Jan 1 – Dec 31, 2020 |
|---|---|---|
| Interest paid | –32.7 | –28.5 |
| Interest received | 1.3 | 3.7 |
| **Total** | **–31.4** | **–24.8** |

Interest paid in fiscal year 2021 includes cash payments for the interest portion of the lease liabilities of EUR 14.6m (prior year: EUR 11.8m) classified as cash flow from operating activities (see also sections 3.5.5 and 3.5.7 (13.)). Moreover, interest paid on convertible bonds amounted to EUR 3.4m in 2021 (prior year: EUR 0.0m).

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, 2021 | Jan 1 – Dec 31, 2020 |
|---|---|---|
| Cash flow from operating activities | 616.2 | 527.4 |
| Proceeds from disposal of non-current assets | – | 38.7 |
| Cash paid for investments in property, plant and equipment | –240.4 | –177.6 |
| Cash paid for investments in intangible assets | –92.5 | –72.5 |
| Cash paid for acquisitions of shares in associated companies and acquisition of companies and prepayments for such acquisitions | – | –31.5 |
| **Free cash flow** | **283.2** | **284.5** |

# 3.5 Notes to the consolidated financial statements

## 3.5.1 Company information

### Company name, registered office

ZALANDO SE (the "company") is the parent of the Zalando group ("Zalando" or the "group"). The company was filed in the commercial register at the Berlin-Charlottenburg district court on May 28, 2014 (HRB 158855 B). ZALANDO SE's registered offices are located at Valeska-Gert-Straße 5 in 10243 Berlin, Germany. Zalando was founded in 2008. The shares of the company have been listed on the regulated market (Prime Standard) at the Frankfurt Stock Exchange since October 1, 2014. ZALANDO SE joined the German stock market index (DAX) as of September 20, 2021. The DAX is the leading German stock market index and covers the 40 largest listed companies in Germany.

### Nature of operating activities

Zalando is a European online fashion and lifestyle platform. The Berlin-based company offers its customers a one-stop inspirational and convenient shopping experience with an extensive selection of lifestyle articles including shoes, apparel, accessories and beauty products, with predominantly free delivery and returns as well as diverse payment options wrapped into an inspirational and personalized digital customer experience.

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, 2021, were compiled in accordance with the International Financial Reporting Standards (IFRS) as adopted by the EU as of the reporting date. In addition, the provisions of Section 315e (1) HGB (German Commercial Code) have been taken into account. The consolidated financial statements fairly present the group's financial position, financial performance and cash flows.

### General information

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

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

## 3.5.3 New accounting standards

### Effects of new or amended IFRS relevant for fiscal year 2021

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

The IASB has issued no new IFRS subject to mandatory first-time application in the fiscal year 2021.

Amendments relate to minor changes to IFRS 4, IFRS 7, IFRS 9, IFRS 16 and IAS 39.

Application of all amended IFRS above has been mandatory since January 1, 2021.

No amended standard subject to first-time application in fiscal year 2021 had a material impact on Zalando’s financial performance, position or disclosure.

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

## New or amended IFRS not yet applied

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

| **Standard/ interpretation** | | **Impending change** |
|---|---|---|
| IFRS 17 | Insurance contracts including amendments to IFRS 17 issued in June 2020 | IFRS 17 contains a consistent model to account for insurance contracts. The standard establishes principles for the recognition, measurement, presentation and disclosure of insurance contracts and eliminates differences in accounting practices. IFRS 17 supersedes the interim standard IFRS 4. |
| Amendment to IFRS 17 | Initial application of IFRS 17 and IFRS 9 – comparative information | Permits entities that first apply IFRS 17 and IFRS 9 at the same time to present comparative information about a financial asset as if the classification and measurement requirements of IFRS 9 had been applied to that financial asset. |
| Amendments to IFRS 16 | COVID-19-related rent concessions beyond June 30, 2021 | Practical expedient for lessees to elect not to assess whether a COVID-19 related rent concession is a lease modification and, in this case, to account for the change in lease payments as if the change were not a lease modification. |
| Amendments to IFRS 3 | Reference to the Conceptual Framework | Updates references in IFRS 3 to the Conceptual Framework issued in March 2018 and makes some minor clarifications regarding the exceptions to the recognition principle. |
| Amendments to IAS 16 | Property, plant and equipment: Proceeds before Intended Use | Sets out that proceeds from selling items produced when testing an asset and the cost of those items are to be recognized in profit or loss and not as an adjustment of the cost of that asset. |
| Amendments to IAS 37 | Onerous contracts – cost of fulfilling a contract | Clarifies that the cost of fulfilling a contract comprises the costs that relate directly to the contract and specifies these elements of cost directly related to a contract. |
| Amendments to IFRS 1, IFRS 9, IFRS 16 and IAS 41 | Annual improvements to IFRS standards 2018-2020 | Minor amendments to several IFRS. |
| Amendments to IAS 1 | Classification of liabilities as current or non-current and classification of liabilities as current or non-current – deferral of effective date | Clarification that a liability is not to be classified as current if the entity has the right at the end of the reporting period to defer settlement of the liability for at least twelve months after the reporting date. |
| Amendments to IAS 8 | Definition of accounting estimates | Replaces the definition of changes in accounting estimates with a definition of accounting estimates to help entities distinguish changes in accounting policies from changes in accounting estimates. |
| Amendments to IAS 1 and IFRS Practice Statement 2 | Disclosure of accounting policies | Requires an entity to disclose its material accounting policy information instead of its significant accounting policies. It also clarifies and illustrates how an entity determines whether accounting policy information is material. The amendment also includes minor adjustments of IAS 26, IAS 34, IFRS 7 and IFRS 8. |
| Amendments to IAS 12 | Deferred tax related to assets and liabilities arising from a single transaction | Limits the initial recognition exemption to the resulting deferred tax liability or asset arising from the initial recognition of an asset or liability in a transaction when this transaction does not give rise to equal taxable and deductible temporary differences. |

| IASB effective date | Endorsed by EU | Anticipated effects |
|---|---|---|
| January 1, 2023, early adoption permitted | Yes | Application is not expected to have any material effect on the consolidated financial statements. |
| On initial application of IFRS 17 | No | Application is not expected to have any material effect on the consolidated financial statements. |
| April 1, 2021, early adoption permitted | Yes | Application is not expected to have any material effect on the consolidated financial statements. |
| January 1, 2022, early adoption permitted | Yes | Application is not expected to have any material effect on the consolidated financial statements. |
| January 1, 2022, early adoption permitted | Yes | Application is not expected to have any material effect on the consolidated financial statements. |
| January 1, 2022, early adoption permitted | Yes | Application is not expected to have any material effect on the consolidated financial statements. |
| January 1, 2022, early adoption permitted | Yes | Application is not expected to have any material effect on the consolidated financial statements. |
| January 1, 2023, early adoption permitted | No | Application is not expected to have any material effect on the consolidated financial statements. |
| January 1, 2023, early adoption permitted | No | Application is not expected to have any material effect on the consolidated financial statements. |
| January 1, 2023, early adoption permitted | No | Application is not expected to have any material effect on the consolidated financial statements. |
| January 1, 2023, early adoption permitted | No | Application is not expected to have any material effect on the consolidated financial statements. |

## 3.5.4 Principles of consolidation

### Basis of consolidation

The number of subsidiaries included in the basis of consolidation is 47 in fiscal year 2021 (prior year: 47; see section 3.5.8 (8.) and (9.) for details).

### Reporting date of the consolidated financial statements

The consolidated financial statements cover fiscal year 2021 on the basis of the reporting period from January 1 to December 31, 2021. 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 statement of profit or loss.

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

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

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

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

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

### Currency translation

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

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

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

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

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

Foreign exchange rates

| | | Closing rate | | Annual average rate | |
|---|---|---|---|---|---|
| | **ISO-Code** | **Dec 31, 2021** | **Dec 31, 2020** | **2021** | **2020** |
| Pound sterling | GBP | 0.8403 | 0.8990 | 0.8595 | 0.8897 |
| Chinese yuan renminbi | CNY | 7.1947 | 8.0225 | 7.6282 | 7.8747 |
| Czech koruna | CZK | 24.8580 | 26.2420 | 25.6405 | 26.4551 |
| Danish krone | DKK | 7.4364 | 7.4409 | 7.4370 | 7.4542 |
| Hong Kong dollar | HKD | 8.8333 | 9.5142 | 9.1932 | 8.8587 |
| Croatian kuna | HRK | 7.5156 | 7.5519 | 7.5284 | 7.5384 |
| Norwegian krone | NOK | 9.9888 | 10.4703 | 10.1633 | 10.7228 |
| Polish zloty | PLN | 4.5969 | 4.5597 | 4.5652 | 4.4431 |
| Swedish krona | SEK | 10.2503 | 10.0343 | 10.1465 | 10.4848 |
| Swiss franc | CHF | 1.0331 | 1.0802 | 1.0812 | 1.0705 |
| US dollar | USD | 1.1326 | 1.2271 | 1.1827 | 1.1422 |

## 3.5.5 Accounting policies

### Intangible assets

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

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

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

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

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

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

For the assets subject to impairment testing, the value in use almost always exceeds their carrying amount. Consequently, in these cases there is no need to determine their fair value less costs of disposal (IAS 36.19). The fair value less costs of disposal is preferred only for transactions to be tested which occurred close to the reporting date. At Zalando, value in use is calculated using cash flow projections based on approved budgets. A constant annual growth factor is assumed and the costs of capital before tax used as a 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 | 4 – 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 statement of profit or loss when the asset is derecognized.

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

## Impairment of non-financial assets

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

## Current versus non-current classification

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

An asset is classified as current when:

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

All other assets are classified as non-current.

A liability is classified as current if:

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

All other liabilities are classified as non-current.

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

## Assets held for sale

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

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

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

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

## Leases

### The group as lessee

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

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

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

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

### Subleases

Zalando classifies subleases by reference to the right-of-use asset arising from the head lease. Typically, this assessment is based on the lease term of the sublease compared to the remaining lease term of the head lease. Whenever the lease term of the sublease is at least 75% of the remaining lease term of the head lease, Zalando classifies those leases as finance subleases; otherwise as operating subleases. For operating subleases the accounting for the head lease remains unchanged and lease payments from the sublease are recognized as income when incurred. For finance subleases the corresponding right-of-use asset is derecognized and a receivable at an amount equal to the net investment in the (sub)lease is presented. Any difference is recognized through profit or loss. To measure the net investment in the (sub)lease, Zalando uses the (risk-adjusted) discount rate used for the head lease.

## 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 assets 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 assets to be recovered.

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

## Inventories

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

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

## Financial instruments

### General information

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

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

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

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

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

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

### Financial assets

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

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

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

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

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

The category of financial assets at fair value through other comprehensive income relates to financial assets that are held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets. The contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding. The fluctuations in value recognized in other comprehensive income are transferred to profit or loss for the period at the time the asset is derecognized. Impairment and foreign exchange gains or losses are nevertheless recognized in profit or loss. No financial assets are classified into this category in fiscal year 2021.

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

### Impairment of financial assets

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

For trade receivables Zalando applies the simplified approach of IFRS 9 to measure the loss allowance at an amount equal to the lifetime expected credit losses. Zalando uses a scenario-based approach for this purpose and takes into account sales-channel and country-specific allowance rates based on expected risks of default and how long the trade receivables are past due. Trade receivables – typically resulting from the use of deferred payment methods (e.g. pay by invoice) – have due dates of maximum 14 to 30 days, depending on the country the order is placed.

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

#### Financial liabilities

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

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

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

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

#### Compound financial instruments

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

### Derivative financial instruments and hedge accounting

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

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

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

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

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

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

### Cash flow hedges

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

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

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

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

## Fair value measurement

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

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

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

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

## Provisions

### General information

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

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

### Restoration obligations

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

## Share-based payments

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

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

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

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

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

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

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

## Revenue recognition

Revenue is recognized in accordance with the provisions of IFRS 15 when the goods or services promised are transferred to the customer, i.e. Zalando satisfies the performance obligation, provided that the collection of the consideration will be probable. Revenue is measured at the amount of the consideration Zalando expects to receive in exchange for transferring the promised goods and services. Within Wholesale, Lounge and outlets 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, predominantly 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. In contrast, services promised to our partners (Partner Program, Connected Retail, Zalando Fulfillment Solutions (ZFS) or Zalando Marketing Services (ZMS)) are separately identifiable performance obligations.

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. Also for services rendered to our partners (Partner Program, Connected Retail, ZFS or ZMS) revenue is recognized at the point in time the underlying performance obligations towards our partners are satisfied. In contrast, performance obligations under Zalando Plus are stand-ready obligations that are satisfied over time. Therefore, revenue is recognized on a straight-line basis over the 12-month subscription period.

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.

Zalando offers its customers a wide range of diverse payment options. Depending on the payment option and the country the order is placed, payments are typically due within a maximum of 14 to 30 days.

## 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 number 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.),
- determination of the useful life of items of property, plant and equipment and of intangible assets as well as the recognition of development costs as internally generated intangible assets; see section 3.5.7 (11.) and 3.5.7 (12.),
- 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,
- 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.).

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

## 3.5.7 Notes to the consolidated statement of comprehensive income and statement of financial position

### (1.) Revenue

Revenue

| IN EUR M | Jan 1 – Dec 31, 2021 | Jan 1 – Dec 31, 2020 |
|---|---|---|
| Revenue from the sale of merchandise | 9,113.9 | 7,322.0 |
| Revenue from other services | 1,240.1 | 660.0 |
| **Total** | **10,354.0** | **7,982.0** |

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

Revenue increased by 29.7% or EUR 2,372.0m from EUR 7,982.0m to EUR 10,354.0m in 2021. The growth was particularly strong during the first half of 2021 on the back of lockdown measures during most of Q1 and early Q2, forcing stationary retail to close or allow customers to enter only under strict restrictions and an overall limited customer mobility across our markets.

The strong Partner Program performance in 2021 clearly reflects our platform transition efforts. Throughout the year, the Partner Program continued its growth trajectory. Zalando saw its Partner Program grow strongly as brands and retailers increased their online activities and connected more stock to the Zalando platform in order to reach their customers across Europe. More than 500 new partners joined the Partner Program in 2021.

Along with that, we saw exceptionally strong new customer growth with many first-time fashion online shoppers. As of December 31, 2021, the group had 48.5 million active customers compared to 38.7 million active customers as of December 31, 2020, corresponding to an increase of 25.3%. This was driven by continuous improvements in our customer experience.

We experienced a favorable trend of return rates in 2021, continuing a development already observed in the prior year. While we believe there are some temporary elements to this change in customer behavior, such as pandemic-related customer and category mix, we consider part of this trend to be more permanent in nature.

### (2.) Cost of sales

Cost of sales

| IN EUR M | Jan 1 – Dec 31, 2021 | Jan 1 – Dec 31, 2020 |
|---|---|---|
| Non-personnel costs | 5,826.2 | 4,437.1 |
| Personnel costs | 201.6 | 150.7 |
| **Total** | **6,027.7** | **4,587.8** |

Cost of sales mainly consists of cost of materials, personnel expenses, allowances on inventories, third-party services and infrastructure costs. The cost of materials in the group totals EUR 5,087.0m (prior year: EUR 3,953.9m).

Cost of sales rose year-on-year by 31.4% from EUR 4,587.8m to EUR 6,027.7m, resulting in a slightly reduced gross margin of 41.8% (prior year: 42.5%). This marginal decline mainly results from increased price investments to stay competitive against a highly promotional environment as stores reopened as well as continued business mix changes regarding category and country.

### (3.) Selling and distribution costs

Selling and distribution costs

| IN EUR M | Jan 1 – Dec 31, 2021 | Jan 1 – Dec 31, 2020 |
|---|---|---|
| Non-personnel costs | 3,116.2 | 2,346.5 |
| Personnel costs | 413.4 | 369.5 |
| **Total** | **3,529.6** | **2,716.0** |

In 2021, selling and distribution costs rose from EUR 2,716.0m to EUR 3,529.6m. This figure is made up of fulfillment costs of EUR 2,599.3m (prior year: EUR 2,055.1m) and marketing costs of EUR 930.3m (prior year: EUR 660.9m).

The fulfillment cost ratio as a percentage of revenue improved by 0.6 percentage points from 25.7% in 2020 to 25.1% in 2021. The fulfillment cost ratio largely benefited from higher utilization, driven by the strong business growth as well as lower average return volumes resulting in a favorable return rate development. During 2021, we added two new logistics sites to a total of 12 fulfillment centers across seven countries.

Overall, the marketing cost ratio rose by 0.7 percentage points from 8.3% in 2020 to 9.0% in 2021. The increase in our marketing cost ratio can primarily be attributed to increased investments in customer acquisition and brand building also relating to the recent launch of six new markets in Central and Eastern Europe to take full advantage of the customer demand opportunity. Furthermore, the marketing ratio development results from our decisive initial coronavirus response efforts in the prior year involving a reduced marketing spend to account for the uncertainty surrounding the further evolution of the pandemic.

### (4.) Administrative expenses

Administrative expenses

| IN EUR M | Jan 1 – Dec 31, 2021 | Jan 1 – Dec 31, 2020 |
|---|---|---|
| Non-personnel costs | 174.1 | 134.1 |
| Personnel costs | 219.1 | 185.1 |
| **Total** | **393.2** | **319.2** |

Administrative expenses increased from EUR 319.2m in 2020 to EUR 393.2m in 2021, implying a decrease of 0.2 percentage points from 4.0% to 3.8% in proportion to revenue. The improvement in administration cost ratio was driven by a continued focus on pursuing efficiencies across the business.

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

### (5.) Other operating income

Other operating income increased by EUR 6.1m from EUR 26.7m in 2020 to EUR 32.8m in 2021.

Zalando recognized income relating to other periods, indemnification for damages as well as proceeds from the sale of assets. In Q2 2021, other income of EUR 13.6m was recognized due to the commencement of a sublease for office space.

### (6.) Other operating expenses

Other operating expenses of EUR 11.5m (prior year: EUR 18.7m) mainly arise from expenses relating to other periods, donations, as well as damages and disposals of assets (see section 3.5.7 (12.)).

### (7.) Financial result

Financial result

| IN EUR M | Jan 1 – Dec 31, 2021 | Jan 1 – Dec 31, 2020 |
|---|---|---|
| Interest and similar income | 4.2 | 16.1 |
| thereof from hedging derivatives | 1.0 | 15.1 |
| thereof from trade and other receivables | 1.2 | 1.5 |
| thereof from other financial instruments | 2.0 | –0.5 |
| Interest and similar expenses | –59.3 | –58.2 |
| thereof from financial liabilities at amortized cost | –44.5 | –27.5 |
| thereof from hedging derivatives | –0.9 | –21.6 |
| thereof other interest and similar expenses | –13.9 | –9.1 |
| Result of investments accounted for using the equity method | 0.0 | 0.1 |
| Other financial result | –15.4 | –6.6 |
| thereof from hedging transactions | –2.0 | –4.5 |
| thereof from currency effects | –13.4 | –2.1 |
| **Financial result** | **–70.5** | **–48.6** |

Interest and similar income mainly decreased due to a more stable environment of foreign exchange interest rates in 2021, which impacted the valuation of hedging derivatives. Income from other financial instruments includes negative interest of EUR 0.0m (prior year: EUR 0.6m). Interest and similar expenses increased slightly compared to 2020. Interest and similar expenses from financial liabilities at amortized cost significantly increased due to the interest expenses of the convertible bonds of EUR 24.6m (prior year: EUR 10.2m) and the interest on lease liabilities of EUR 14.6m (prior year: EUR 11.8m). The expenses for hedging derivatives decreased due to a more stable environment of foreign exchange interest rates. Other interest and similar expenses contain negative interest of EUR 13.2m (prior year: EUR 6.2m). The currency effects in other financial result are mainly caused by valuation effects in PLN.

### (8.) Income taxes

Income taxes include deferred taxes and current income taxes paid or payable in the respective countries. Income taxes comprise trade tax, corporate income tax, solidarity surcharge and the equivalent foreign tax charges. As in the prior year, the statutory corporate income tax rate, including solidarity surcharge, for the 2021 assessment period in Germany was 15.8%. The 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, 2021 | Jan 1 – Dec 31, 2020 |
|---|---|---|
| Deferred taxes | –10.0 | 8.5 |
| Current taxes | –109.7 | –100.9 |
| **Total** | **–119.7** | **–92.4** |

Current tax expense of EUR 5.6m relates to previous periods (prior year: EUR 0.4m current tax expense).

The amount of deferred tax expense of EUR 10.0m (prior year: EUR 8.5m deferred tax income) mainly relates to the origination and reversal of temporary differences.

As of the reporting date, the Zalando group maintains unused corporate income tax losses of EUR 121.1m (prior year: EUR 101.8m) and unused trade tax losses of EUR 59.6m (prior year: EUR 42.6m). For unused corporate income tax losses of EUR 98.6m (prior year: EUR 84.8m) and unused trade tax losses of EUR 53.7m (prior year: EUR 52.7m) no deferred tax assets are recognized. Tax losses of EUR 3m for which no deferred tax asset is recognized expire in 2028.

The utilization of unused tax losses for which no deferred tax assets have been recognized in the past affects the tax result by a total of EUR 0.2m in the reporting year (prior year: EUR 0.3m).

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, 2021 | Jan 1 – Dec 31, 2020 |
|---|---|---|
| Earnings before taxes | 354.3 | 318.5 |
| Income tax rate for the group | 30.5% | 30.5% |
| Expected tax expense (–)/tax income (+) | –108.1 | –97.1 |
| Share of taxes for: | | |
| Non-deductible expenses, tax-free income | –10.7 | –7.0 |
| Recognition of previously unrecognized unused tax losses, tax credits | 0.8 | 3.5 |
| Unrecognized unused tax losses | –3.7 | 0.2 |
| Tax expenses (–)/tax income (+) relating to other periods | –3.7 | 3.6 |
| Tax rate differences | 5.7 | 4.6 |
| thereof share of subsidiaries with higher tax rates | –1.4 | –0.4 |
| thereof share of subsidiaries with lower tax rates | 7.1 | 5.1 |
| **Income tax expense according to the consolidated statement of comprehensive income** | **–119.7** | **–92.4** |
| Effective tax rate | *33.8%* | *29.0%* |

### (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, 2021 | Jan 1 – Dec 31, 2020 |
|---|---|---|
| Net income for the period attributable to the shareholders of ZALANDO SE (in EUR m) | 234.5 | 226.1 |
| Basic weighted average number of shares (in millions) | 257.6 | 250.5 |
| **Basic earnings per share (in EUR)** | **0.91** | **0.90** |

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, 2021 | Jan 1 – Dec 31, 2020 |
|---|---|---|
| Net income for the period attributable to the shareholders of ZALANDO SE (in EUR m) | 234.5 | 226.1 |
| Basic weighted average number of diluted shares (in millions) | 265.0 | 261.5 |
| **Diluted earnings per share (in EUR)** | **0.88** | **0.86** |

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 containing performance conditions that had not yet been met as of the reporting date or were out of the money. As a result, options granted within the scope of LTI 2021 and ZOP 2019 (prior year: LTI 2018 and LTI 2019) were not taken into account in the calculation of diluted earnings.

### (10.) Personnel expenses

Personnel expenses

| IN EUR M | Jan 1 – Dec 31, 2021 | Jan 1 – Dec 31, 2020 |
|---|---|---|
| Wages and salaries | 777.4 | 656.4 |
| Social security, pensions and other benefit costs | 141.3 | 116.4 |
| thereof pension costs | 0.7 | 0.5 |
| **Total** | **918.7** | **772.8** |

The average number of salaried employees[22] in the group was 16,060 in fiscal year 2021 (prior year: 13,868). Contributions to the statutory pension insurance scheme rose by EUR 10.0m to EUR 59.5m (prior year: EUR 49.5m).

22) Excluding apprentices and working students.

**(11.) Intangible assets**

Statement of movements of intangible assets 2021

| 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, 2021** | **282.8** | **73.8** | **56.4** | **69.6** | **482.6** |
| Additions | 39.3 | 3.9 | 0.0 | 48.5 | 91.7 |
| Disposals | –1.0 | –0.5 | 0.0 | –0.6 | –2.1 |
| Reclassifications | 26.4 | 2.8 | 0.0 | –28.2 | 1.0 |
| Currency translation differences | 0.0 | 0.1 | 0.0 | 0.0 | 0.1 |
| **As of Dec 31, 2021** | **347.5** | **80.1** | **56.4** | **89.3** | **573.3** |
| **Amortization** | | | | | |
| **As of Jan 1, 2021** | **199.9** | **45.3** | **0.0** | **1.4** | **246.6** |
| Additions | 57.4 | 7.6 | 0.0 | 0.0 | 65.0 |
| Disposals | –0.9 | –0.5 | 0.0 | 0.0 | –1.4 |
| Reclassifications | 0.1 | 0.0 | 0.0 | –0.1 | 0.0 |
| Currency translation differences | 0.1 | 0.0 | 0.0 | 0.0 | 0.1 |
| **As of Dec 31, 2021** | **256.6** | **52.4** | **0.0** | **1.3** | **310.3** |
| **Carrying amounts** | | | | | |
| **As of Dec 31, 2020** | **82.9** | **28.5** | **56.4** | **68.2** | **236.0** |
| **As of Dec 31, 2021** | **90.9** | **27.7** | **56.4** | **88.0** | **263.0** |

Statement of movements of intangible assets 2020

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

The additions to intangible assets mainly relate to capitalized development costs as well as to prepayments and assets under development totaling EUR 87.8m (prior year: EUR 98.4m). Of these, EUR 83.6m is attributable to internally developed software and EUR 4.2m reported under other prepayments. Intangible assets not yet available for use are subject to the annual impairment testing on the level of the cash generating unit or group of cash generating units to which those assets belong to. The annual impairment testing in fiscal year 2021 (as well as in the prior year) did not result in any impairment losses for intangible assets not yet available for use.

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

Research costs are only incurred to a minor extent in the development of software and are recognized directly through profit or loss.

Amortization of EUR 65.0m was recorded in the reporting period (prior year: EUR 65.6m). Of this amount, EUR 11.0m (prior year: EUR 9.6m) is recognized in cost of sales, EUR 43.9m (prior year: EUR 47.7m) in selling and distribution costs, and EUR 10.1m (prior year: EUR 8.3m) in administrative expenses.

### Impairment test for goodwill

Zalando recognized goodwill totaling EUR 56.4m as of December 31, 2021 (prior year: EUR 56.4m). As this amount is not deemed to be material for the group, we only provide the following information about the impairment test for goodwill.

The goodwill is allocated to two units (Tradebyte and Fashion Store), the former being an individual cash-generating unit and the latter a group of cash-generating units. Tradebyte contains Tradebyte Software Ltd. (formerly Anatwine Ltd.) and Tradebyte Software GmbH which are disclosed in “All other segments” whereas Fashion Store has been identified as an operating segment for which Zalando reports separate financial information. In prior years Tradebyte Software Ltd. and Tradebyte Software GmbH were identified as separate cash generating units. As of 2021 the cash flows generated from the assets of those entities can not be seen as largely independent anymore. Therefore, both entities have now been identified as a single cash generating unit. No unit or group of units to which goodwill is allocated is larger than an operating segment defined by IFRS 8.

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

Zalando calculated the discount rate before taxes using the capital asset pricing model. Consequently, a risk-free rate, a market risk premium and a spread for credit risk based on the respective business-specific peer group were determined. In addition, the calculations include capital structure and the beta factor of the respective peer group as well as the average tax rate of each cash-generating unit. The resulting discount rates before taxes lie in the range of 11.2% to 15.5% (prior year: 11.3% to 13.2%).

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, 2021 (prior year: no such situation existed).

## (12.) Property, plant and equipment

Statement of movements of property, plant and equipment 2021

| 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, 2021** | **659.6** | **201.4** | **17.8** | **178.3** | **1,057.1** |
| Additions | 10.0 | 25.0 | 2.5 | 207.1 | 244.6 |
| Disposals | −0.6 | −5.4 | −0.1 | −1.3 | −7.4 |
| Reclassifications | 59.6 | 10.6 | 1.8 | −73.0 | −1.0 |
| Currency translation differences | −12.9 | −1.1 | −0.1 | −2.9 | −17.0 |
| **As of Dec 31, 2021** | **715.7** | **230.5** | **21.9** | **308.2** | **1,276.3** |
| **Depreciation** | | | | | |
| **As of Jan 1, 2021** | **144.2** | **101.3** | **1.5** | **0.0** | **247.0** |
| Additions | 52.4 | 27.4 | 1.8 | 0.0 | 81.6 |
| Disposals | −0.1 | −4.2 | 0.0 | 0.0 | −4.3 |
| Reclassifications | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Currency translation differences | −5.9 | −1.4 | 0.0 | −0.1 | −7.4 |
| **As of Dec 31, 2021** | **190.6** | **123.1** | **3.3** | **−0.1** | **316.9** |
| **Carrying amounts** | | | | | |
| **As of Dec 31, 2020** | **515.4** | **100.1** | **16.3** | **178.3** | **810.1** |
| **As of Dec 31, 2021** | **525.1** | **107.4** | **18.6** | **308.3** | **959.4** |

Statement of movements of property, plant and equipment 2020

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

This year’s additions to property, plant and equipment of EUR 244.6m (prior year: EUR 179.5m) are mainly related to the fulfillment centers in Rotterdam (Bleiswijk), the Netherlands, and Szczecin (Gardno), Poland. Disposals are mainly related to other equipment, furniture and fixtures regarding an office closing in Berlin and low-value assets scrapped in fiscal year 2021.

Depreciation of property, plant and equipment totaled EUR 81.6m (prior year: EUR 72.5m). Of this total, an amount of EUR 15.4m (prior year: EUR 11.0m) is recognized in cost of sales, EUR 53.7m (prior year: EUR 49.2m) in selling and distribution costs and EUR 12.5m (prior year: EUR 12.3m) in administrative expenses.

### (13.) Right-of-use assets and lease liabilities

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

At the end of the reporting period, right-of-use assets totaled EUR 584.2m (prior year: EUR 479.8m). Additions to right-of-use assets amounted to EUR 194.2m (prior year: EUR 27.9m) and mainly relate to the commencement of the lease contracts of our new offices in Berlin, Germany, and Zurich, Switzerland, three new logistics sites in Rotterdam (Bleiswijk), the Netherlands, Madrid (Illescas), Spain, and Poznan, Poland, as well as three new outlet stores in Constance, Düsseldorf and Berlin, Germany. The additions were partially offset by the commencement of a sublease agreement for office space in April 2021, which led to a decrease of right-of-use assets of EUR 52.2m. Furthermore, a receivable from the sublease of EUR 65.8m has been recognized in non-current financial assets at that time. As of the reporting date, the carrying amount of that receivable is EUR 61.4m and the sum of the undiscounted lease payments to be received amounts to EUR 68.7m. The difference of EUR 7.3m represents the unearned finance income. Within each of the following five years undiscounted lease payments of EUR 7.4m will be received. The remainder of the undiscounted lease payments of EUR 31.6m is due over the course of the remaining lease term after that five-year period.

During fiscal year, Zalando recognized depreciation in the amount of EUR 88.9m (prior year: EUR 72.7m). Of this total, an amount of EUR 12.9m (prior year: EUR 6.2m) is recognized in cost of sales, EUR 43.3m (prior year: EUR 39.7m) in selling and distribution costs and EUR 32.6m (prior year: EUR 26.8m) in administrative expenses. A breakdown by class of underlying asset is as follows:

Right-of-use assets 2021

| IN EUR M | Depreciation | Additions | Carrying amount as of Dec 31, 2021 |
|---|---|---|---|
| Buildings | 88.0 | 189.7 | 580.2 |
| Other equipment | 0.9 | 4.5 | 4.0 |
| **Total** | **88.9** | **194.2** | **584.2** |

Right-of-use assets 2020

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

Total lease liabilities amount to EUR 679.9m as of December 31, 2021 (EUR 516.7m as of December 31, 2020). Maturity of the undiscounted payments related to the lease liabilities is as follows:

Maturity of lease liabilities

| | Due in | | | | |
|---|---|---|---|---|---|
| IN EUR M | Less than 1 year | 1 – 5 years | More than 5 years | Total | Carrying amount as of Dec 31, |
| **2021** | **112.8** | **396.1** | **235.8** | **744.7** | **679.9** |
| 2020 | 83.1 | 280.2 | 203.2 | 566.5 | 516.7 |

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 2021, additional payments for such index-based rent adjustments totaled EUR 0.4m (prior year: EUR 0.4m). Expenses in fiscal year 2021 which were not included in the measurement of lease liabilities amounted to EUR 0.4m (prior year: EUR 0.3m).

Options to extend the lease contracts are material from the group's perspective. They vary between three and up to twenty years. Exercising all of these options could lead to an additional total cash outflow of EUR 1,096.7m (prior year: EUR 860.7m). Additionally, Zalando has made a commitment to enter into several lease contracts not yet commenced. They include two new fulfillment centers in Germany and France, two new offices in Berlin and three new outlets in Germany. They commence between 2022 and 2024 and lead to total additional payments (including all options to extend these leases) of up to EUR 738.4m (prior year: EUR 598.5m).

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 2021, expenses relating to short-term leases amount to EUR 4.0m (prior year: EUR 2.9m) and expenses for leases of low-value assets amount to EUR 0.0m (prior year: EUR 0.1m). There was no material change in the portfolio of short-term leases during the fiscal year.

Interest expenses on lease liabilities total EUR 14.6m for fiscal year 2021 (prior year: EUR 11.8m); they are recognized within the cash flow from operating activities. Cash payments for the principal portion of the lease liabilities total EUR 84.5m (prior year: EUR 67.2m); 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 2021 for the group (including payments for short-term and low-value leases) amounts to EUR 103.1m (prior year: EUR 82.3m).

**(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, 2021 | Dec 31, 2020 | Change |
|---|---|---|---|
| **Other non-current financial assets** | **78.1** | **11.9** | **66.2** |
| thereof lease receivable | 61.4 | 0.0 | 61.4 |
| thereof derivative financial instruments | 2.4 | 0.9 | 1.5 |
| thereof restricted cash | 2.5 | 2.5 | 0.0 |
| thereof other financial instruments | 11.7 | 8.5 | 3.2 |
| **Other non-current non-financial assets** | **3.9** | **5.1** | **–1.2** |
| thereof deferred items | 3.9 | 5.1 | –1.2 |

With the commencement of a sublease agreement for office space in April 2021, we recognized a receivable from the sublease amounting to EUR 61.4m as of December 31, 2021.

**(15.) Investments accounted for using the equity method**

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

Investments accounted for using the equity method

| IN EUR M | Dec 31, 2021 | Dec 31, 2020 | Change |
|---|---|---|---|
| Le New Black SAS | 1.7 | 1.7 | 0.0 |
| **Total** | **1.7** | **1.7** | **0.0** |

The total carrying amount of our investments accounted for using the equity method remained unchanged at EUR 1.7m as of December 31, 2021.

### (16.) Inventories

Inventories of merchandise, mainly consisting of shoes and textiles, are recognized in an amount of EUR 1,547.4m (prior year: EUR 1,361.2m). The EUR 186.3m increase in inventories resulted from higher business volume combined with rising stock inbound levels to increase availability and thus customer satisfaction.

Allowances of EUR 239.2m were recognized on inventories (prior year: EUR 206.4m). Expenses for allowances recorded on inventories were EUR 231.6m in the reporting year (prior year: EUR 218.1m).

### (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, 2021 | Dec 31, 2020 |
|---|---|---|
| **Accumulated bad debt allowances as of Jan 1** | **141.9** | **103.2** |
| Additions to portfolio-based specific bad debt allowance | 72.2 | 66.6 |
| Utilizations | –70.5 | –25.6 |
| Reversals | –8.4 | –2.5 |
| Exchange rate effects and other changes | 0.9 | 0.1 |
| **Accumulated bad debt allowances as of Dec 31** | **136.1** | **141.9** |

Additions to bad debt allowances totaled EUR 72.2m in the reporting year (prior year: EUR 66.6m). Of the bad debt allowances recognized as of December 31 of the prior year, EUR 8.4m was reversed (prior year: EUR 2.5m) and EUR 70.5m utilized (prior year: EUR 25.6m). Bad debt losses for uncollectible receivables amounted to EUR 58.8m in the fiscal year (prior year: EUR 28.0m).

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

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

### (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, 2021 | Dec 31, 2020 | Change |
|---|---|---|---|
| **Other current financial assets** | **49.8** | **32.0** | **17.8** |
| thereof derivative financial instruments | 32.0 | 20.5 | 11.5 |
| thereof creditors with debit balance | 17.5 | 10.8 | 6.7 |
| thereof other financial instruments | 0.3 | 0.7 | –0.4 |
| **Other current non-financial assets** | **383.0** | **295.1** | **87.9** |
| thereof VAT receivables | 215.4 | 157.3 | 58.1 |
| thereof right to repossess goods | 86.9 | 75.9 | 11.0 |
| thereof deferred items | 18.3 | 15.3 | 2.9 |
| thereof income tax receivables | 43.8 | 30.9 | 12.9 |
| thereof other non-financial assets | 18.6 | 15.7 | 2.9 |

The increase in other current financial assets is largely due to increased derivative financial instruments resulting from changes in foreign exchange rates as well as an increased hedge volume (see also section 3.5.7 (28.)). VAT receivables rose by EUR 58.1m mainly relating to an increased business volume and ongoing investments in our new fulfillment centers (see section 3.5.7 (12.)). Our right to repossess goods increased by EUR 11.0m in comparison to the prior year due to increased business volume.

### (19.) Cash and cash equivalents

Cash and cash equivalents comprise the categories presented in the following table. The short-term deposits presented have original terms to maturity of up to three months. Cash and cash equivalents decreased by EUR 356.1m in comparison to the prior year. This decrease was predominantly caused by the repayment of the revolving credit facility (RCF) amounting to EUR 375.0m, which was originally drawn in 2020.

Cash and cash equivalents

| IN EUR M | Dec 31, 2021 | Dec 31, 2020 |
|---|---|---|
| Money market funds | 1,055.8 | 1,117.7 |
| Cash in bank | 1,031.8 | 1,077.8 |
| Short-term bank deposits | 200.0 | 448.3 |
| Cash on hand | 0.3 | 0.2 |
| **Total** | **2,287.9** | **2,644.0** |

### (20.) Equity

The parent company issued 262,022,094 ordinary bearer no-par value shares (“Stückaktien auf den*die Inhaber*in”) as of the reporting date (prior year: 255,523,307). 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 2021, the issued capital of the parent company was increased by a total of EUR 6.8m (prior year: EUR 2.4m) to EUR 262.0m by making partial use conditional capital 2013, 2014 and 2016. The capital contribution for the newly issued shares is fully paid in.

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

Authorized and conditional capital

| | Amount in EUR m | Number of no-par value shares | Purpose |
|---|---|---|---|
| Authorized capital 2020 | 100.3 | 100,266,384 | Cash or non-cash capital increases until June 22, 2025 |
| Conditional capital 2013 | 8.8 | 8,817,500 | Servicing of subscription rights from SOP 2013 |
| Conditional capital 2014 | 3.4 | 3,442,394 | Servicing of subscription rights from SOP 2014 |
| Conditional capital 2016 | 3.3 | 3,340,236 | Servicing of subscription rights from EIP 2016 |
| Conditional capital 2019 | 1.5 | 1,522,269 | Servicing of subscription rights from LTI 2018 |
| Conditional capital 2020 | 75.2 | 75,199,787 | Servicing of subscription rights from convertible bonds and/or bonds with warrants or a combination of these instruments until June 22, 2025 |

The capital reserve amounts to EUR 1,285.9m (prior year: EUR 1,428.9m). In the reporting year, contributions were made under the share-based payment plans in accordance with IFRS 2 of EUR 57.3m (prior year: EUR 50.3m). The contributions made for the newly issued shares increased the capital reserve by EUR 2.6m. Furthermore, the capital reserve was affected by the transfer of treasury shares to employees (EUR 12.2m), deferred taxes from share-based payments (EUR -17.1m) and the repurchase of treasury shares (EUR -197.9m).

In 2021, ZALANDO SE repurchased 2,110,378 treasury shares (prior year: 0). Total repurchased shares as of December 31, 2021 amount to a notional share in share capital of EUR 3,302,861 (prior year: EUR 2,125,734) and thus to 1.26% (prior year: 0.83%) of share capital. The treasury shares are to be used to serve employee stock option plans. In 2021, 933,251 treasury shares were distributed to employees under employee stock option plans (prior year: 2,042,165 treasury shares).

Other reserves include effects from cash flow hedging of EUR -37.8m (prior year: EUR -9.7m) and deferred taxes on the resulting measurement differences of EUR 11.6m (prior year: EUR 3.0m). Due to cash flow hedging in the reporting year, an expense of EUR 6.6m (prior year: of EUR 8.9m) was recycled from other reserves to revenue, and expenses of

EUR 1.3m was reclassified from other reserves to inventories in accordance with IFRS 9 (prior year: EUR 1.5m).

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

A non-controlling interest arose from the acquisition and first-time full consolidation of Anatwine Ltd. in 2017. Minority shareholders hold 1.3% (prior year: 1.3%) of the Anatwine shares as of December 31, 2021; the non-controlling interest amounted to EUR -0.2m (prior year: EUR -0.2m).

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

### (21.) Share-based payments

As of the reporting date, Zalando has various share-based payment awards in place for which expenses amounting to EUR 57.3m (prior year: EUR 53.8m) have been recognized. Of these expenses, an amount of EUR 57.3m (prior year: EUR 53.8m) relates to equity-settled share-based awards. The awards material to our consolidated financial statements are described in detail below. All these awards are accounted for as equity-settled plans granted to employees and executives in 2021 and prior years. The basic assumption is that the rules of any program apply to all participants equally, however, compliance with the jurisdictions concerned sometimes require minor adjustments for a certain group of participants.

#### Description of the Management Board programs

**SOP 2011 and SOP 2013**

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

The options of SOP 2011 were granted to the members of the Management Board in fiscal year 2011. SOP 2011 consists of options that entitle each member of the Management Board to acquire 1,028,500 new shares in the company. Each option entitles the beneficiary to acquire one share. The exercise price is EUR 5.65 per option. The options granted to the beneficiaries vested in monthly tranches over a seven-year period and became exercisable upon vesting. The last tranche of the SOP 2011 vested in October 2018. The options can be exercised for an unlimited period of time but, until July 27, 2020 only within defined exercise windows, namely within two weeks of the publication of a quarterly statement, a half-year report or the annual financial statements. On June 23, 2020, the Supervisory Board resolved that, from that date, the options under SOP 2011 can be exercised at any time outside of any black-out period, namely the period from the 45th calendar day prior to the company's annual general meeting until the day of such annual general meeting, the period from the day on which the company or any of its affiliated companies publicly announces its offering of securities until the day on which the offer period for such offering closes and closed periods as set by the company's general insider policies. The beneficiaries have no claim to cash payment from SOP 2011.

The options of SOP 2013 were granted to the members of the Management Board in fiscal year 2013. SOP 2013 consists of options that entitle each member of the Management Board to acquire 3,272,500 new shares in the company. Each option entitles the beneficiaries to acquire one share. The exercise price is EUR 15.63 per option. The beneficiaries can alternatively request a reduction of the exercise price from EUR 15.63 to EUR 1.00 for all or some of the options already vested. In this case, the number of options is reduced so that it leaves the beneficiary at the time of the request neither better nor worse off economically. The options granted to the beneficiaries vested in monthly tranches over a five-year period. The last tranche of SOP 2013 vested in November 2018. The exercise of the options requires the expiry of a four-year waiting period and the achievement of the performance criterion which was determined in a compound annual revenue growth rate during the four-year waiting period. The waiting period ended in December 2017 and the performance criterion was achieved at the end of this period. Prior to July 27, 2020, the options could only be exercised in defined exercise windows, namely within three weeks of the publication of a quarterly statement, a half year report or the annual financial statements. By resolution of the annual general meeting of the company and resolution of the Supervisory Board on June 23, 2020, the exercise periods under SOP 2013 have been amended as follows: the options can be exercised at any time outside of any black-out period, namely the period from the 45th calendar day prior to the company's annual general meeting until the day of such annual general meeting, the period from the day on which the company or any of its affiliated companies publicly announces its offering of securities until the day on which the offer period for such offering closes and closed periods as set by the company's general insider policies.

**LTI 2018**

Each member of the Management Board was granted 1,750,000 options under the LTI 2018 (of which 1,000,000 options are virtual options and 750,000 options are equity options) which forms part of the 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 four years commencing on the effective date December 1, 2018, for 57% of the options and 4.75 years for the remaining 43% of the options. The performance period relevant for the achievement of the performance criterion equals the waiting period (i.e. 4 and 4.75 years) for the respective options. 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.

Upon the exercise of virtual stock options, the beneficiary is entitled to the amount by which the share price as per the exercise date exceeds the exercise price of EUR 47.44. This amount (the settlement value) is limited to a maximum of EUR 97.14 per option. In order to achieve this maximum amount the company's share price will need to reach EUR 144.58. The company is entitled to settle its obligation by way of delivery of the respective number of treasury shares as settlement shares equivalent to the settlement value.

Upon the exercise of equity stock options, the beneficiary is entitled to the respective number of new shares of the company equivalent to the amount by which the share price as per the exercise date exceeds the exercise price of EUR 47.44. This amount (the settlement value) is limited to a maximum of EUR 97.14 per option. In order to achieve this maximum amount the company's share price will need to reach EUR 144.58. The company is entitled to settle its obligation in cash or by way of delivery of the respective number of treasury shares as settlement shares equivalent to the settlement value.

**LTI 2019 and restated LTI 2019**

With effect as of April 2019 Zalando expanded its Management Board by two new members, namely David Schröder and Jim Freeman. Each new member of the Management Board was granted options under a new Long-Term Incentive program 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 1.00 (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 one, two, three or four years, commencing on the effective date April 1, 2019. The performance period relevant for the achievement of the performance criterion equals the waiting period for the respective options. The percentage of vested options of a beneficiary which can be exercised depends on the extent to which a targeted 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 the share price as per the exercise date exceeds the exercise price of EUR 29.84 for Type A Options and EUR 1.00 for Type B and Type C Options. This amount (the settlement value) is limited to a maximum of EUR 70.16 per Type A and EUR 99.00 per Type B and Type C Option. In order to achieve this maximum amount, the company's share price upon exercise needs to reach EUR 100.00. The company is entitled to settle its obligation by way of delivery of the respective number of treasury shares as settlement shares equivalent to the settlement value.

With respect to negative tax consequences resulting for Jim Freeman as a citizen of the United States of America from the application of certain provisions of Sec. 409A of the U.S. Internal Revenue Code, specific rules of the LTI 2019, applicable to Jim Freeman, have been amended (the “restated LTI 2019”) and options vested until March 31, 2020 have been canceled and settled by the company as cash and share consideration. The company has indemnified Jim Freeman from the penalty imposed on the settlement value and for remaining options under the restated LTI 2019.

Under the restated LTI 2019, the 17,125 options granted to Jim Freeman vest at the end of each quarter or, in case the vesting date is falling on December 31, on November 1 of each calendar year, starting end of June 2020 until end of March 2023. Vested options can only be exercised after the expiry of the relevant vesting period as described above. As of the end of each calendar year after the expiry of the waiting period all unexercised options will be forfeited without compensation.

**LTI 2021**

The LTI (Long-Term Incentive Program) was introduced in April 2021 as a variable remuneration component of the Remuneration System 2021 for the members of the Management Board. The LTI 2021 is a share-based virtual option program which is linked to the development of the company’s Gross Merchandise Volume as well as ESG-targets. Under the LTI 2021, the members of the Management Board are granted two types of options, namely LTI Shares and LTI Options, by way of a one-off grant for the entire term of their service agreement (sequential plan). The LTI provides for the flexibility of the members of the Management Board to individually determine the proportion of LTI Shares (LTI Shares Ratio) and LTI Options (LTI Options Ratio). For this purpose, the Supervisory Board sets a target value in euro as grant value. The number of LTI Shares to be granted is calculated by dividing this grant value by the product of the share price as per the grant date and a fixed conversion factor for LTI Shares of 1 and multiplying this quotient with the LTI Shares Ratio. The number of LTI Options to be granted to the individual Management Board member is calculated by dividing the grant value by the product of the share price as per the grant date and a fixed conversion factor for LTI Options of 0.4 and multiplying this quotient with the LTI Options Ratio. The number of LTI Shares and LTI Options which can be exercised is subject to, *inter alia*, their prior vesting, the expiration of the relevant waiting period and depends on the extent to which the performance criteria are met during the respective performance period. The options vest in quarterly tranches over a performance period equal to the relevant term of service agreement.
LTI Shares and LTI Options can only be exercised after the expiry of a four-year waiting period commencing on the grant date. Further, LTI Shares and LTI Options can only be exercised within a fixed exercise period of three years after the expiry of the waiting period. LTI Shares and LTI Options which are still unexercised as per the expiration of the exercise period are forfeited without compensation. The LTI Shares entitle the member of the Management Board to a cash payment in the amount of the difference between the company’s share price as per the exercise date and an exercise price of EUR 1.00 per LTI Share. The LTI Options entitle the member of the Management Board to a cash payment in the amount of the difference between our share price as per the exercise date and the share price as per the grant date.
The payout (the settlement value) under the LTI 2021 is capped at 200% of the share price as per the grant date for LTI Shares and at 250% of the share price as per the grant date for LTI

Options. The company is entitled to settle its obligation by way of delivery of the respective number of treasury shares as settlement shares equivalent to the settlement value.

**ZOP 2021**

The ZOP (Zalando Ownership Plan) was introduced in April 2021 as a variable remuneration component of the Remuneration System 2021 for the members of the Management Board. Under the ZOP, at the end of each quarter of service, the participants are granted fully vested equity in the form of stock options as a reward for such quarters. Performance options can only be exercised after a waiting period of two years commencing on the grant date.
The annual target equity amount of each participant is divided into quarterly tranches and each tranche gets converted into a specific number of performance shares (options with a strike of EUR 1.00) and performance options (options with strike price equal to the closing price of the Zalando stock on the grant date (grant share price)). The participants can choose how to split the quarterly tranches into performance shares and performance options.
The conversion into stock options is based on different conversion factors for performance shares (1.05) and performance options (0.3). At the end of the two-year waiting period applicable to performance options of the respective tranche, beneficiaries can exercise their stock options at any time over a period of three years except during black-out periods. Performance shares can only be exercised within three years following the grant date. The ZOP Shares entitle the member of the Management Board to a cash payment in the amount of the difference between the share price at the time ZOP Shares are exercised and the exercise price of EUR 1.00 per exercised ZOP Share. The ZOP Options entitle the member of the Management Board to a cash payment in the amount of the difference between the share price as per the exercise date and the share price as per the grant date. The payment claim (the settlement value) under the ZOP Shares is limited to 200% of the share price as per the grant date per ZOP Share and to 250% of the share price as per the grant date per ZOP Option.
The company is entitled to settle its obligation by way of delivery of the respective number of treasury shares as settlement shares equivalent to the settlement value.

**Management programs**

**SOP 2014**

SOP 2014 entitles senior members of the Management Team as well as selected key employees to subscribe to a total of 6,732,000 shares in ZALANDO SE. The options vested provided that the recipient has worked for the company for the period specified within a tranche.
Vested options can only be exercised if the performance conditions contained in the SOP 2014 have been fulfilled and the waiting period has elapsed. The exercise price is EUR 17.72, EUR 22.79, EUR 25.03, EUR 29.92, EUR 30.48 and EUR 31.60 per option based on the respective grant date of the options. Each option entitles the recipient to acquire one new share or treasury share (at the company's sole discretion). The options vest in 16 tranches over a period of four years. The performance condition stipulates that Zalando must achieve a certain level of revenue growth over a period of four years, starting on the grant date. If the contractual revenue target is not achieved, the options are forfeited without compensation.
The four-year waiting period commences on the grant date. The recipients can exercise vested options after the waiting period over a period of five years. Prior to July 27, 2020, the options could only be exercised in defined exercise windows, namely within three weeks of the publication of a quarterly statement, a half-year report or the annual financial statements.

As per resolution of the annual general meeting of the company and resolution of the Supervisory Board on June 23, 2020, the exercise periods under SOP 2014 have been amended as follows: from that date, the options can now be exercised at any time outside of any black-out period, namely the period from the 45th calendar day prior to the company's annual general meeting until the day of such annual general meeting, the period from the day on which the company or any of its affiliated companies publicly announces its offering of securities until the day on which the offer period for such offering closes and closed periods as set by the company's general insider policies. The recipients have no claim to cash payment. The company nevertheless is entitled to settle its obligation by making a cash payment in an amount equal to the excess of the share price as of the exercise date over the exercise price for each exercised stock option.

**VSOP 2017**

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

**VSOP 2018 and restated VSOP 2018**

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

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

**EIP**

The EIP was a yearly equity award granted to managing directors of subsidiaries, managerial staff members and selected key employees of the group. The EIP awards were granted in July (as a full annual grant) and in January (as a pro rata annual grant) of each year. The first EIP award was granted in July 2016. The options issued under EIP entitled 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 could decide how to split the annual grant between performance shares and performance options and regarding the performance options, whether they would be granted as ATM (at the money) performance options or OTM (out of the money) performance options.
The swap ratio was based on the fair value measurement of the performance shares and options. Performance shares had an exercise price of EUR 1.00, ATM performance options had 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 had an exercise price of 120% of the base price. The portfolios vested provided the recipient had worked for the company for the period specified within a tranche. Vested portfolios could only be exercised if the performance target defined in EIP had been fulfilled and the waiting period had elapsed. The performance condition stipulated that Zalando had to achieve a certain level of growth over a period of four years, starting on the grant date. If the contractual performance target was not achieved, the portfolio was forfeited without replacement. The four-year waiting period commenced on the grant date. The recipients could exercise vested portfolios after the waiting period of four years, except during black-out periods. It is up to the sole discretion of the Management Board to decide in each case whether the settlement of options will be processed in shares of the company (through conditional capital or treasury shares) or in cash. As of July 2019, the EIP was replaced by the ZOP (Zalando Ownership Plan).

**ZOP 2019**

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

**Other programs**

Zalando has a company-wide top performance options plan in place and in 2020 introduced the new company wide share benefit plan for employees called Zalando share plan. Zalando share plan replaces the former programs Share Bonus and Share Invest.

**Zalando share plan**

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

**Top performance options plan**

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

Development of outstanding options

| | SOP 2011 | | SOP 2013* | | SOP 2014 | | EIP** | |
|---|---|---|---|---|---|---|---|---|
| | Number | Exercise price (in EUR) | Number | Exercise price (in EUR) | Number | Weighted average exercise price (in EUR) | Number | Weighted average exercise price (in EUR) |
| **Outstanding as of Jan 1, 2020** | **1,346,400** | **5.65** | **9,275,200** | **15.63** | **2,114,754** | **21.23** | **3,628,749** | **35.31** |
| Granted during the year | 0 | – | 0 | – | 0 | – | 0 | – |
| Forfeited during the year | 0 | – | 0 | – | 0 | – | 0 | – |
| Canceled during the year | 0 | – | 0 | – | 0 | – | 0 | – |
| Exercised during the year | 1,271,600 | 5.65 | 800,000 | 1.00 | 1,308,105 | 20.07 | 465,554 | 24.91 |
| **Outstanding as of Dec 31, 2020** | **74,800** | **5.65** | **6,779,835** | **1.00** | **806,649** | **23.12** | **3,163,195** | **36.88** |
| **Exercisable as of Dec 31, 2020** | **74,800** | **5.65** | **6,779,835** | **1.00** | **806,649** | **23.12** | **305,680** | **28.74** |
| | | | | | | | | |
| **Outstanding as of Jan 1, 2021** | **74,800** | **5.65** | **6,779,835** | **1.00** | **806,649** | **23.12** | **3,163,195** | **36.88** |
| Granted during the year | 0 | – | 0 | – | 0 | – | 0 | – |
| Forfeited during the year | 0 | – | 0 | – | 0 | – | –808 | 33.69 |
| Canceled during the year | 0 | – | 0 | – | 0 | – | 0 | – |
| Exercised during the year | 74,800 | 5.65 | 6,372,360 | 1.00 | 145,201 | 20.71 | 403,727 | 34.14 |
| **Outstanding as of Dec 31, 2021** | **0** | **–** | **407,475** | **1.00** | **661,448** | **23.65** | **2,760,276** | **37.26** |
| **Exercisable as of Dec 31, 2021** | **0** | **–** | **407,475** | **1.00** | **661,448** | **23.65** | **981,741** | **33.73** |
| | | | | | | | | |
| **Weighted average remaining contractual life of outstanding options (in years)** | | | | | | | | |
| As of Dec 31, 2020 | Unlimited | | 2.0 | | 3.2 | | 4.9 | |
| As of Dec 31, 2021 | – | | 1.0 | | 2.2 | | 4.0 | |
| **Weighted average share price for options exercised (in EUR)** | | | | | | | | |
| 2020 | 69.22 | | 67.52 | | 55.62 | | 67.50 | |
| 2021 | 86.26 | | 86.91 | | 93.11 | | 91.69 | |

*) For 542,300 options the contractually agreed provision to reduce the exercise price to EUR 1.00 was used in 2018. This reduced the number of options to 370,571, of which 200,000 were exercised at EUR 1.00 in 2018 and 170,571 in 2019. In 2020, the contractually agreed provision to reduce the exercise price to EUR 1.00 was used for all remaining options. Furthermore, from the options exercised in 2021 each 2,191,315 options held by companies wholly owned by members of the Management Board were exercised on March 22, 2021 at a share price of EUR 86.26 and an exercise price of EUR 1.00 per option. Those options were transferred in 2018 and 2017.

**) The forfeiture of 808 options under EIP in previous years was reversed in 2021.

| | VSOP 2017 | | VSOP 2018 | | LTI 2018 | | LTI 2019 | | LTI 2021 | | ZOP | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | Number | Weighted average exercise price (in EUR) | Number | Exercise price (in EUR) | Number | 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) |
| | **749,166** | **42.24** | **500,000** | **29.84** | **5,250,000** | **47.44** | **784,000** | **15.71** | **0** | **–** | **353,794** | **14.83** |
| | 0 | – | 0 | – | 0 | – | 0 | – | 0 | – | 712,332 | 26.46 |
| | 0 | – | 0 | – | 0 | – | 0 | – | 0 | – | 0 | – |
| | 3,936 | 35.47 | 254,062 | 29.84 | 78,051 | 47.44 | 77,004 | 2.76 | 0 | – | 28,611 | 18.60 |
| | 530,230 | 39.15 | 0 | – | 0 | – | 24,463 | 1.00 | 0 | – | 61,053 | 1.00 |
| | **215,000** | **50.00** | **245,938** | **29.84** | **5,171,949** | **47.44** | **682,533** | **17.79** | **0** | **–** | **976,462** | **24.07** |
| | **215,000** | **50.00** | **0** | **–** | **0** | **–** | **0** | **–** | **0** | **–** | **93,871** | **1.07** |
| | | | | | | | | | | | | |
| | **215,000** | **50.00** | **245,938** | **29.84** | **5,171,949** | **47.44** | **682,533** | **17.79** | **0** | **–** | **976,462** | **24.07** |
| | 0 | – | 0 | – | 0 | – | 0 | – | 102,339 | 61.36 | 673,482 | 50.28 |
| | 0 | – | 0 | – | 875,000 | – | 0 | – | 0 | – | 493 | 1.00 |
| | 0 | – | 0 | – | 0 | – | 0 | – | 0 | – | 0 | – |
| | 185,000 | 50.00 | 105,938 | 29.84 | 0 | – | 274,777 | 17.27 | 0 | – | 237,631 | 8.86 |
| | **30,000** | **50.00** | **140,000** | **29.84** | **4,296,949** | **47.44** | **407,756** | **17.99** | **102,339** | **61.36** | **1,411,820** | **39.14** |
| | **30,000** | **50.00** | **0** | **–** | **0** | **–** | **1,442** | **7.04** | **0** | **–** | **576,449** | **8.30** |
| | | | | | | | | | | | | |
| | | | | | | | | | | | | |
| | 1.5 | | 1.8 | | 5.9 | | 4.4 | | – | | 4.1 | |
| | 0.5 | | 1.4 | | 4.9 | | 3.5 | | 6.3 | | 3.3 | |
| | | | | | | | | | | | | |
| | 73.30 | | – | | – | | 79.96 | | – | | 74.50 | |
| | 88.02 | | 87.05 | | – | | 88.86 | | – | | 88.41 | |

### 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 2021 | LTI 2021 | ZOP |
|---|---|---|
| Option pricing model | Binomial | Binomial |
| Weighted average share price (in EUR) | 94.4 | 87.0 |
| Weighted average exercise price (in EUR) | 61.4 | 39.4 |
| Expected volatility (%) | 38.0 | 40.3 |
| Expected dividends (%) | 0.0 | 0.0 |
| Risk-free interest rate for equivalent maturities (%) | –0.6 | –0.7 |
| Probability of reaching the performance target (%) | 78.5 | n.a. |
| Weighted average fair value of option (in EUR) | 33.0 | 60.0 |

Valuation parameters

| Valuation parameters 2020 | LTI 2021 | ZOP |
|---|---|---|
| Option pricing model | – | Binomial |
| Weighted average share price (in EUR) | – | 53.8 |
| Weighted average exercise price (in EUR) | – | 26.5 |
| Expected volatility (%) | – | 35.9 |
| Expected dividends (%) | – | 0.0 |
| Risk-free interest rate for equivalent maturities (%) | – | –0.7 |
| Probability of reaching the performance target (%) | – | n.a. |
| Weighted average fair value of option (in EUR) | – | 31.2 |

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 about future performance.

### (22.) Provisions

Provisions developed as follows in the reporting year:

Development of provisions

| IN EUR M | Jan 1, 2021 | Usage | Addition | Release | Interest expense | Dec 31, 2021 |
|---|---|---|---|---|---|---|
| Restoration obligations | 46.6 | 0.2 | 10.7 | 4.0 | 0.1 | 53.1 |
| Other provisions | 1.6 | 0.2 | 0.4 | 0.5 | 0.0 | 1.2 |
| **Total** | **48.1** | **0.4** | **11.1** | **4.5** | **0.1** | **54.3** |

Provisions developed as follows in the prior year:

Development of provisions

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

The provisions for restoration obligations exclusively related to leasehold improvements were mainly increased for our warehouses in the Netherlands and Spain. Other provisions pertain to provisions for retention obligations and onerous contracts.

The following table shows the maturities of the provisions at the end of fiscal year 2021:

Maturity of provisions

| | Due in | | | |
|---|---|---|---|---|
| IN EUR M | Less than 1 year | 1 – 5 years | More than 5 years | Total |
| Restoration obligations | 0.7 | 11.0 | 41.4 | 53.1 |
| Other provisions | 0.2 | 0.6 | 0.4 | 1.2 |
| **Total** | **0.9** | **11.7** | **41.7** | **54.3** |

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

Maturity of provisions

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

### (23.) Trade payables and similar liabilities and prepayments received

Trade payables and similar liabilities rose by EUR 386.5m to EUR 2,437.0m. The increase is primarily due to deliveries of merchandise because of higher business volume.

Under reverse factoring agreements, suppliers' claims against Zalando totaling EUR 599.8m were transferred to various factors as of December 31, 2021 (December 31, 2020: EUR 449.8m). These liabilities 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 55.4m as of the reporting date (prior year: EUR 46.8m).

Prepayments received pertain to advance payments received from customers for orders. The balance as of the beginning of the reporting period of prepayments received was recognized in revenue in the fiscal year (so was in prior year) after delivery of the goods taking into account the returns of the underlying 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, 2021 | Dec 31, 2020 | Change |
|---|---|---|---|
| **Other current financial liabilities** | **214.9** | **145.6** | **69.3** |
| thereof obligations to reimburse customers for returns | 117.1 | 89.3 | 27.8 |
| thereof derivative financial instruments | 67.5 | 33.8 | 33.8 |
| thereof debtors with credit balances | 20.0 | 12.2 | 7.8 |
| thereof others | 10.3 | 10.4 | –0.0 |
| **Other current non-financial liabilities** | **278.9** | **234.8** | **44.0** |
| thereof VAT liabilities | 168.4 | 180.4 | –11.9 |
| thereof liabilities from gift vouchers | 58.8 | 41.2 | 17.6 |
| thereof liabilities from wages and salaries | 40.8 | 24.4 | 16.3 |
| thereof others | 10.9 | –11.1 | 22.0 |

Our obligations to reimburse customers for returns increased by EUR 27.8m to EUR 117.1m as of December 31, 2021, largely due to the higher sales volume in the reporting period. The changes in derivative financial instruments resulted from changes in foreign exchange rates as well as increased hedge volume (see also section 3.5.7 (28.)). The increase in liabilities from gift vouchers is predominantly caused by the higher business volume. These are recognized at the value of the anticipated utilization. Our liabilities from wages and salaries rose by EUR 16.3m in line with the rise in the number of employees.

### (25.) Borrowings and convertible bonds

#### Borrowings

Current borrowings decreased by EUR 377.7m to EUR 0.0m as of December 31, 2021. This decrease is mainly due to the repayment of the revolving credit facility (RCF), amounting EUR 375.0m, at the beginning of the reporting period. In 2020, Zalando drew its RCF to strengthen the liquidity of the group during the first wave of lockdown measures in the coronavirus pandemic. Borrowings are due to banks. For more information, please refer to section 3.5.8 (1.).

#### Convertible bonds

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

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

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

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

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

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

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

As of the reporting date December 31, 2021, an amount of EUR 457.1m (Tranche A; prior year: EUR 445.9m) and EUR 437.9m (Tranche B; prior year: EUR 427.8m) is presented under convertible bonds. Accrued interests of EUR 0.1m (Tranche A; prior year: EUR 0.1m) and EUR 1.3m (Tranche B; prior year: EUR 1.3m) are presented within other current financial liabilities.

**(26.) Notes to the statement of cash flows**

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

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

Cash outflow from investing activities is mainly impacted by capex, being the sum of the payments for investments in property, plant and equipment and intangible assets, amounting to EUR 332.9m (prior year: EUR 250.0m). Capex primarily included investments in the logistics infrastructure, relating to the fulfillment centers in the Netherlands, Poland, Germany and France, as well as capital expenditures on internally developed software. In 2020, cash flow from investing activities contained an inflow of cash in the form of payments received for the sale of undeveloped land on the Zalando Campus of EUR 30.3m, and from the sale of a subsidiary of EUR 6.0m and warehouse equipment (Brieselang, Germany) of EUR 2.4m.

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

Cash flow from financing activities is EUR -639.8m (prior year: EUR 1,354.1m). The year-on-year difference of EUR 1,993.9m was attributable to cash outflows of EUR 375.0m in connection with the repayment of the revolving credit facility (RCF) in 2021, which had originally been drawn in Q1 2020. Another factor affecting the development of the cash flow from financing activities was the spend for share buybacks of EUR 200.0m in May, June and July 2021.
The main reason for the difference in comparison to the prior year was, however, the cash inflow from the issue of convertible bonds in August 2020. In Q3 2020, we placed two tranches of unsubordinated, unsecured convertible bonds with an aggregate principal amount of EUR 1,000.0m, which resulted in cash inflows from financing activities of EUR 994.0m.

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

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

## Reconciliation of liabilities arising from financing activities 2021

| IN EUR M | Carrying amount as of Dec 31, 2020 | Cash flows | Non-cash flow changes | Carrying amount as of Dec 31, 2021 |
|---|---|---|---|---|
| Non-current borrowings | 1,316.7 | 0.0 | 157.3 | 1,474.0 |
| Current borrowings | 451.4 | –462.3 | 111.9 | 101.0 |

## Reconciliation of liabilities arising from financing activities 2020

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

### (27.) Deferred taxes

Deferred tax assets and liabilities recognized as of the reporting dates of the reporting and comparative period break down as follows:

Deferred tax assets and liabilities

| | Deferred tax assets | | Deferred tax liabilities | | Net balance | |
|---|---|---|---|---|---|---|
| IN EUR M | Dec 31, 2021 | Dec 31, 2020 | Dec 31, 2021 | Dec 31, 2020 | Dec 31, 2021 | Dec 31, 2020 |
| Intangible assets | 0.4 | 0.7 | –45.2 | –36.8 | –44.8 | –36.1 |
| Property, plant and equipment | 1.2 | 1.2 | –11.5 | –9.2 | –10.3 | –8.0 |
| Leases | 179.7 | 135.9 | –174.4 | –130.2 | 5.3 | 5.7 |
| Inventories | 0.1 | 0.1 | –11.5 | –8.1 | –11.4 | –8.0 |
| Trade and other receivables | 3.7 | 6.0 | –11.4 | –15.2 | –7.7 | –9.2 |
| Provisions | 14.9 | 12.5 | –0.1 | 0.0 | 14.8 | 12.5 |
| Convertible bonds | 0.0 | 0.6 | –32.1 | –38.8 | –32.1 | –38.2 |
| Other financial and non-financial liabilities | 21.3 | 20.6 | –2.8 | –3.8 | 18.5 | 16.8 |
| Share-based payments | 39.6 | 54.4 | 0.0 | 0.0 | 39.6 | 54.4 |
| Unused tax losses, tax credits | 5.8 | 6.3 | 0.0 | 0.0 | 5.8 | 6.3 |
| **Total** | **266.7** | **238.3** | **–289.0** | **–242.1** | **–22.3** | **–3.8** |
| **Netting** | **–255.5** | **–222.9** | **255.5** | **222.9** | **0.0** | **0.0** |
| **Total recognized deferred tax assets and liabilities** | **11.2** | **15.4** | **–33.5** | **–19.2** | **–22.3** | **–3.8** |

The increase in net deferred tax liabilities is mainly caused by a decrease in deferred tax assets on options granted under Zalando's share-based payment programs. In contrast to the accounting treatment under IFRS, expenses from these share-based payments are only tax deductible when the options are exercised by the plan participants, which gives rise to a taxable temporary difference. The corresponding taxable temporary difference (deductible amount) has been determined based on the difference between the share price at the reporting date and the exercise price of the options. Due to the decrease in Zalando's share price at the reporting date, the deferred tax assets recognized on these programs also decreased. Because the deductible amount depends, among other things, on the share price at the time the options are exercised, the amount recognized as a deferred tax asset is an estimate and may change in the future.

In addition, Zalando recognized additional deferred tax liabilities of EUR 8.7m compared to the prior year, particularly in connection with internally developed software. This was offset in particular by the decrease of deferred tax liabilities from the convertible bond.

The increase in the netting effect is mainly attributable to new leases, which resulted in deferred tax assets due to the recognition of lease liabilities and, in the opposite direction, in deferred tax liabilities due to the recognition of lease receivables and right-of-use assets.

Due to the application of IAS 12.68C an amount of EUR 16.2m (prior year: EUR 33.3m) of deferred tax assets on share-based payment programs is recognized directly in equity. Deferred tax from hedging derivatives (cash flow hedges) included in the positions trade and other receivables and other financial and non-financial liabilities are directly recognized in other comprehensive income. The corresponding equity position increased from EUR 3.0m in the prior year to EUR 11.6m in the reporting period.

Of the total deferred tax movement of EUR -18.5m (prior year: EUR -2.3m), an amount of EUR -8.5m (prior year: EUR -10.8m) is recognized in equity and an amount of EUR -10.0m (prior year: EUR 8.5m) is recognized in the income statement.

### (28.) Financial instruments

Carrying amounts of financial assets/liabilities and their fair values 2021

| | | | 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, 2021 | Amortized cost | Fair value not through profit and loss | Fair value through profit and loss | Fair value as of Dec 31, 2021 |
| **Assets** | | | | | | |
| Cash and cash equivalents | AC | 2,287.9 | 2,287.9 | – | – | – |
| Trade and other receivables | AC | 727.4 | 727.4 | – | – | – |
| Other financial assets | AC | 85.3 | 85.3 | – | – | 85.3 |
| Derivative financial instruments designated as hedging instruments | n.a. | 34.4 | – | 31.5 | 2.9 | 34.4 |
| Other derivative financial instruments | FVtPL | 0.0 | – | – | 0.0 | 0.0 |
| Corporate investments | FVtPL | 8.1 | – | – | 8.1 | 8.1 |
| **Liabilities** | | | | | | |
| Trade payables and similar liabilities | FLAC | 2,437.0 | 2,437.0 | – | – | – |
| Financial liabilities | FLAC | – | – | – | – | – |
| Convertible bonds | FLAC | 895.0 | 895.0 | – | – | 920.4 |
| Other financial liabilities | FLAC | 156.2 | 156.2 | – | – | 156.2 |
| Derivative financial instruments designated as hedging instruments | n.a. | 72.9 | – | 69.3 | 3.6 | 72.9 |
| Other derivative financial instruments | FVtPL | 0.1 | – | – | 0.1 | 0.1 |

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

Carrying amounts of financial assets/liabilities and their fair values 2020

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

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

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

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

Nominal amounts and market values of derivative financial instruments

| | Nominal value | Market value | | | Nominal value | Market value |
|---|---|---|---|---|---|---|
| | | Assets | Liabilities | Total | | |
| IN EUR M | Dec 31, 2021 | Dec 31, 2021 | Dec 31, 2021 | Dec 31, 2021 | Dec 31, 2020 | Dec 31, 2020 |
| Forward exchange contracts in a hedge relationship | 2,715.8 | 34.4 | –72.9 | –38.5 | 2,187.9 | –13.4 |
| thereof in cash flow hedge | 2,565.5 | 31.5 | –69.3 | –37.8 | 2,159.7 | –11.2 |
| thereof in fair value hedge | 150.3 | 2.9 | –3.6 | –0.7 | 28.1 | –2.1 |
| Interest rate swaps in a hedge relationship | 0.0 | 0.0 | 0.0 | 0.0 | 1.6 | –0.0 |
| Freestanding forward exchange contracts | 0.7 | 0.0 | –0.1 | 0.0 | 50.3 | –1.4 |
| **Total** | **2,716.5** | **34.4** | **–72.9** | **–38.5** | **2,239.8** | **–14.8** |

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

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

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

If all contractual partners fail to meet their obligations from the forward exchange contracts, the credit risk for the group amounts to EUR 2.8m as of the reporting date (prior year: EUR 2.3m).

The forward exchange contracts in place as of the reporting date have a remaining term of up to 14 months. The nominal value of forward exchange contracts with a term over 12 months is EUR 291.4m (prior year: EUR 222.8m).

In the reporting period, income from fair value measurement of financial instruments designated as a cash flow hedge of EUR 26.2m (prior year: EUR 7.2m) was recognized directly in equity.

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

Average contract rates of the hedging instruments

| | CHF | CZK | GBP | NOK | PLN | SEK | USD |
|---|---|---|---|---|---|---|---|
| Average contract rates as of Dec 31, 2021 | 1.0798 | 26.2481 | 0.8903 | 10.3866 | 4.6095 | 10.2060 | 1.2062 |
| Average contract rates as of Dec 31, 2020 | 1.0712 | 26.5772 | 0.8943 | 10.7037 | 4.4762 | 10.6065 | 1.1565 |

### Net gains and losses from financial assets and financial liabilities

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

Net gains and losses from financial instruments 2021

| | | From subsequent measurement affecting profit or loss | | | | |
|---|---|---|---|---|---|---|
| IN EUR M | From interest affecting profit or loss | Fair value adjustment | Currency translation | Allowances | From disposal affecting profit or loss | Total 2021 |
| **Assets** | | | | | | |
| Amortized costs | -12.2 | 0.0 | -14.6 | -63.8 | 70.5 | -20.1 |
| Fair value through profit or loss | 0.0 | -1.8 | 0.0 | 0.0 | 0.0 | -1.8 |
| **Liabilities** | | | | | | |
| Amortized cost | -29.9 | 0.0 | 27.7 | 0.0 | 0.0 | -2.2 |
| **Total** | **-42.1** | **-1.8** | **13.1** | **-63.8** | **70.5** | **-24.1** |

Net gains and losses from financial instruments 2020

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

## Changes in the reserve for cash flow hedges 2021

| IN EUR M | Hedge reserve currency risk | Cost of hedging currency risk | Hedge reserve interest rate risk | Total 2021 |
|---|---|---|---|---|
| Balance at Jan 1, 2021 | -7.8 | -1.9 | 0.0 | -9.7 |
| Gains or losses from effective hedging relationships | -34.9 | 6.4 | 0.0 | -28.5 |
| Reclassifications due to changes in expectations about the hedged item | -0.1 | 0.0 | 0.0 | -0.1 |
| Reclassifications due to realization of the hedged item | 2.4 | -1.9 | 0.0 | 0.5 |
| **Balance at Dec 31, 2021** | **-40.4** | **2.6** | **0.0** | **-37.8** |

## Changes in the reserve for cash flow hedges 2020

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

### 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** | |
| Borrowings | Level 2 |
| Convertible bonds | Level 1 |

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

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

#### Offsetting

For financial assets and liabilities no global netting agreements of the ISDA (International Swaps and Derivatives Association) or any other comparable national framework agreements or similar contracts that lead to an offsetting effect were in place in 2021 and 2020.

## 3.5.8 Other notes

#### (1.) Risks relating to financial instruments and financial risk management

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

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

#### Market risk

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

The currency risk can be broken down into two further types of risk: the translation risk and the transaction 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 risks 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 revenue and sourcing transactions in foreign currencies. Forward exchange contracts are used to hedge these activities.

For this purpose, plain vanilla OTC derivative financial instruments are concluded and processed in accordance with internal guidelines that set out binding rules for the scope of action and responsibilities as well as reporting and controls. Risk exposure is hedged with a standard layered approach. The economic relationship between the hedged item and the hedging instrument is determined prospectively through critical terms match based on currency, tenor and notional. The hedge ratio is established through internal approval processes and calculated based on outstanding notional volume of foreign exchange forwards in relation to the notional volume of the underlying highly probable forecasted transactions. As of the reporting date, the average monthly hedge ratio for 2021 was in a range between 72.0% and 96.9% (prior year: between 72.4% and 81.7%), depending on the currency. Sources of hedge ineffectiveness can be changes in the forecasted highly probable underlying business transactions.

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

If the euro had appreciated 5% against the foreign currencies as of December 31, 2021 earnings before taxes would have been EUR 5.1m lower (prior year: EUR 15.8m). If the euro had depreciated 5% compared with the exchange rate as of December 31, 2021 earnings before taxes would have been EUR 5.1m higher (prior year: EUR 17.5m).

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

### Foreign currency sensitivity on profit or loss 2021

| | Impact on profit or loss | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| IN EUR M | CHF | CZK | DKK | GBP | NOK | PLN | SEK | USD | Total |
| **FX rate as of Dec 31, 2021** | **1.0331** | **24.8580** | **7.4364** | **0.8403** | **9.9888** | **4.5969** | **10.2503** | **1.1326** | |
| 5% increase in FX rate | 1.4 | –0.2 | –2.8 | –1.4 | –0.1 | –0.2 | 0.5 | –2.3 | –5.1 |
| 5% decrease in FX rate | –1.4 | 0.2 | 2.8 | 1.4 | 0.1 | 0.2 | –0.5 | 2.3 | 5.1 |

### Foreign currency sensitivity on profit or loss 2020

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

The reserve for derivatives in group equity would have been EUR 97.1m lower (prior year: EUR 79.7m higher) if the euro had appreciated 5% compared with the exchange rate as of December 31, 2021. This reserve would have been EUR 97.1m higher (prior year: EUR 88.1m lower) if the euro had depreciated 5%.

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

Foreign currency sensitivity on other comprehensive income 2021

| | Impact on other comprehensive income | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| IN EUR M | CHF | CZK | GBP | NOK | PLN | SEK | USD | Total |
| **FX rate as Dec 31, 2021** | **1.0331** | **24.8580** | **0.8403** | **9.9888** | **4.5969** | **10.2503** | **1.1326** | |
| 5% increase in FX rate | –54.9 | –9.6 | 0.6 | –15.6 | –20.2 | –13.7 | 16.3 | –97.1 |
| 5% decrease in FX rate | 54.9 | 9.6 | –0.6 | 15.6 | 20.2 | 13.7 | –16.3 | 97.1 |

Foreign currency sensitivity on other comprehensive income 2020

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

Zalando is currently not exposed to any material interest rate risk that might arise from interest rate fluctuations on the earnings, equity or cash flow for the current or future reporting period.

### Credit risk

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

There is no significant concentration of credit risk.

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

### Liquidity risk

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

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

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

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

There is no significant concentration of liquidity risk.

The tables below show the contractually agreed (undiscounted) interest and principal payments for primary financial liabilities and for derivative financial instruments with their negative fair value. All instruments in the portfolio as of December 31, 2021, and December 31, 2020, 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, 2021, and December 31, 2020, respectively. All on-call financial liabilities are always allocated to the earliest possible date.

Payments for financial liabilities and derivative financial instruments 2021

| | Carrying amount | Cash flows 2022 | | Cash flows 2023–2026 | | Cash flows 2027 and ff. | |
|---|---|---|---|---|---|---|---|
| IN EUR M | Dec 31, 2021 | Interest | Repayments | Interest | Repayments | Interest | Repayments |
| Borrowings | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Convertible bonds | 895.0 | 3.4 | 0.0 | 13.3 | 500.0 | 3.1 | 500.0 |
| Trade payables and similar liabilities | 2,437.0 | 1.9 | 2,437.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Other financial liabilities | 229.1 | 0.0 | 144.3 | 0.0 | 15.3 | 0.0 | 0.0 |
| thereof from derivatives | 73.1 | 0.0 | 69.6 | 0.0 | 6.6 | 0.0 | 0.0 |
| **Total** | **3,561.1** | **5.3** | **2,581.3** | **13.3** | **515.3** | **3.1** | **500.0** |

Payments for financial liabilities and derivative financial instruments 2020

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

There were no breaches of covenants under the revolving credit facility or any other external borrowing in 2021 and 2020.

### Capital management

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

Capital management and its objectives and definition are based on key performance indicators derived from the consolidated financial statements in accordance with IFRS. Zalando therefore defines the net working capital key performance indicator as the sum of inventories and trade receivables less trade payables and similar liabilities. The net working capital stood at EUR -162.1m as of the reporting date (prior year: EUR -87.4m). The company achieved the key performance indicator target set by management during both the 2021 year and in the prior year.

### Collateral

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

### (2.) Information about related parties

Zalando identified the related parties of ZALANDO SE in accordance with IAS 24. Zalando had transactions with related parties in the reporting period in the ordinary course of business. The transactions were carried out in accordance with the arm's length principle. All transactions with related parties are related to the key management personnel of Zalando, i.e. were carried out with the members of the Management Board or Supervisory Board, their close family members or with entities controlled or jointly controlled by those persons or over which those persons have significant influence or in which those persons hold a position as a member of the key management personnel.

Goods and services from related parties give rise to liabilities of EUR 190.6m as of the reporting date (prior year: EUR 142.1m) which are due to a reverse factoring provider on account of reverse factoring agreements between Zalando and suppliers which were identified as related parties. Furthermore, trade receivables from related parties amount to EUR 0.4m (prior year: EUR 0.1m).

Merchandise of EUR 348.8m was ordered from related parties in the reporting period. In the prior year, the order volume totaled EUR 289.2m. In addition, goods totaling EUR 3.6m were sold to related parties (prior year: EUR 2.8m). Furthermore, Zalando provided services to related parties totaling EUR 32.4m (prior year: EUR 30.2m).

As of the reporting date an amount of EUR 6.1m (prior year EUR 6.6m) is presented under current and non-current liabilities for outstanding indemnifications of Jim Freeman under the 409A requirements for future exercises of virtual stock options under LTI 2019 and VSOP 2018.

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 the company's strategy and Corporate Affairs |
| David Schneider | Management Board member responsible for brand partners strategy as well as Sustainability and Diversity & Inclusion |
| Rubin Ritter (until June 1, 2021) | Management Board member responsible for strategy and communications |
| David Schröder | Management Board member responsible for the financial and operational perspective |
| Dr. Astrid Arndt (since April 1, 2021) | Management Board member responsible for People & Organization |
| James M. Freeman, II | Management Board member responsible for the development, marketing and growth of Zalando's consumer offerings |

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

Members of the Supervisory Board

| Supervisory Board | Profession held | Member of the Supervisory Board since |
|---|---|---|
| Matti Ahtiainen | Employed at Zalando Finland Oy, Espoo, Finland | June 23, 2020 |
| Kelly Bennett (Deputy chairperson) | Board member and Executive Advisor, Los Angeles, USA | May 22, 2019 |
| Jade Buddenberg | Employed at ZALANDO SE, Berlin, Germany | June 23, 2020 |
| Jennifer Hyman | CEO and Co-Founder of Rent the Runway, Inc., New York, USA | June 23, 2020 |
| Anika Mangelmann | Employed at ZALANDO SE, Essen, Germany | June 23, 2020 |
| Jørgen Madsen Lindemann (member until May 19, 2021) | Investor | May 31, 2016 |
| Niklas Östberg (member since May 19, 2021) | CEO and Co-Founder of Delivery Hero SE Zurich, Switzerland | May 19, 2021 |
| Anders Holch Povlsen | CEO Bestseller A/S, Viby, Denmark | December 12, 2013 |
| Mariella Röhm-Kottmann | Senior Vice President, Head of Corporate Accounting of ZF Friedrichshafen AG, Friedrichshafen, Germany | May 22, 2019 |
| Cristina Stenbeck (Chairperson) | Entrepreneur, investor and member of boards of directors, Stockholm, Sweden | May 22, 2019 |

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

In fiscal year 2021, expenses of EUR 8.2m were recorded for the members of the Management Board (prior year: EUR 19.7m). Of this amount, EUR 6.3m is attributable to share-based payment awards in fiscal year 2021 (prior year: EUR 18.0m). 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, 2019 and 2021. 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 2.4m in fiscal year 2021 (prior year: EUR 4.0m). In fiscal year 2021 a number of 0.1m options under LTI 2021 and ZOP with a total fair value of EUR 3.5m were granted to members of the Management Board (prior year: no new option rights were granted). Further information regarding Section 314 (1) No. 6a HGB and Section 162 AktG can be found in the remuneration report, which is presented in the corporate governance statement and is part of the combined management report.

The members of the Supervisory Board received remuneration of EUR 1.0m in fiscal year 2021 (prior year: EUR 0.8m). Of this amount EUR 1.0m (prior year: EUR 0.8m) is outstanding at the reporting date and becomes due after the conclusion of the annual general meeting held on May 18, 2022 (prior year: May 19, 2021). 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 2021 is published on the company's website.

**(5.) Business combinations**

There were no business combinations in fiscal year 2021.

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

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

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

**(6.) Average number of employees**

The average number of employees[23] by individual business unit as of the reporting date is presented below:

Average number of employees

| | 2021 | 2020 |
|---|---|---|
| Commercial | 2,671 | 2,452 |
| Operations | 8,780 | 7,525 |
| Technology | 2,759 | 2,347 |
| Other | 1,850 | 1,545 |
| **Total** | **16,060** | **13,868** |

**(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, 2021, were audited by Ernst & Young GmbH Wirtschaftsprüfungsgesellschaft, Stuttgart. The lead auditors were Kristian Ludwig (since 2019) and Sebastian Haas (since 2016). Ernst & Young GmbH Wirtschaftsprüfungsgesellschaft, Stuttgart, may audit the financial statements of the company until 2023, after which the audit has to be put out for tender.

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

- EUR 0.9m for the audit (separate and consolidated financial statements) (prior year: EUR 0.9m)
- and EUR 0.2m for other assurance services (prior year: EUR 0.1m).

**(8.) Shareholdings**

ZALANDO SE's direct and indirect shareholdings in its subsidiaries as of December 31, 2021, can be summarized as follows:

23) Excluding apprentices and working students.

List of shareholdings

| No. | Company | Company domicile | Currency | Share of equity held by* | Share in-capital in % 2021 |
|---|---|---|---|---|---|
| **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<br>2 | 99.0<br>1.0 |
| 4 | Zalando Logistics Mönchengladbach SE & Co. KG** | Mönchengladbach | EUR | Directly<br>2 | 99.0<br>1.0 |
| 5 | Zalando Logistics Süd SE & Co. KG** | Berlin | EUR | Directly<br>2 | 99.0<br>1.0 |
| 6 | Zalando Logistics Operations France SAS | Paris, France | EUR | Directly | 100.0 |
| 7 | Zalando Customer Care DACH SE & Co. KG** | Berlin | EUR | Directly<br>2 | 99.0<br>1.0 |
| 8 | Zalando Customer Care International SE & Co. KG** | Berlin | EUR | Directly<br>2 | 99.0<br>1.0 |
| 9 | Zalando Lounge Service GmbH | Berlin | EUR | Directly | 100.0 |
| 10 | Zalando Outlets GmbH | Berlin | EUR | Directly | 100.0 |
| 11 | Zalando Ireland Ltd. | Dublin, Ireland | EUR | Directly | 100.0 |
| 12 | Zalando Finland Oy | Helsinki, Finland | EUR | Directly | 100.0 |
| 13 | BREAD & butter GmbH & Co. KG** | Berlin | EUR | Directly | 100.0 |
| 14 | Portokali Property Development III SE & Co. KG** | Berlin | EUR | Directly<br>2 | 99.9<br>0.1 |
| 15 | Zalando Studios Berlin GmbH | Berlin | EUR | Directly | 100.0 |
| 16 | Mobile Fashion Discovery GmbH | Berlin | EUR | Directly | 100.0 |
| 17 | Zalando Marketing Services GmbH | Berlin | EUR | Directly | 100.0 |
| 18 | BREAD & butter tradeshow Verwaltungs GmbH | Berlin | EUR | 13 | 100.0 |
| 19 | zLabels Trading Ltd. | Hong Kong, Hong Kong | HKD | 1 | 100.0 |
| 20 | zLabels China Trading Co. Ltd. | Dongguan, China | CNY | 19 | 100.0 |
| 21 | ifansho Holding GmbH | Berlin | EUR | Directly | 100.0 |
| 22 | nugg.ad GmbH | Berlin | EUR | 17 | 100.0 |
| 23 | Zalando Logistics Operations Polska sp. z o.o. | Gardno, Poland | PLN | 2 | 100.0 |
| 24 | Tradebyte Software GmbH | Ansbach | EUR | Directly | 100.0 |
| 25 | Zalando Lounge Logistics SE & Co. KG** | Berlin | EUR | Directly<br>2 | 99.0<br>1.0 |
| 26 | Zalando Logistics Operations Spain S.L.U. | Elche, Spain | EUR | 1 | 100.0 |
| 27 | zLabels LP GmbH | Berlin | EUR | 1 | 100.0 |
| 28 | Zalando Payments GmbH | Berlin | EUR | Directly | 100.0 |

List of shareholdings

| No. | Company | Company domicile | Currency | Share of equity held by* | Share in-capital in % 2021 |
|---|---|---|---|---|---|
| 29 | Zalando Switzerland AG | Zurich, Switzerland | CHF | Directly | 100.0 |
| 30 | Connected Retail GmbH | Berlin | EUR | Directly | 100.0 |
| 31 | Zalando Beauty Store GmbH | Berlin | EUR | Directly | 100.0 |
| 32 | Zalando Lounge Logistics Polska sp. z o.o. | Olsztynek, Poland | PLN | Directly | 100.0 |
| 33 | Tradebyte Software Ltd. | Cheltenham, United Kingdom | GBP | Directly | 98.7 |
| 34 | Anatwine, Inc. | New Castle, Delaware, USA | USD | 33 | 100.0 |
| 35 | Zalando OpCo Polska Sp. z o.o. | Gluchow, Poland | PLN | 2 | 100.0 |
| 36 | zLabels Creation & Sales GmbH & Co. KG** | Berlin | EUR | 1<br>27 | 99.0<br>1.0 |
| 37 | zLabels Platform Services GmbH & Co. KG** | Berlin | EUR | 1<br>27 | 99.0<br>1.0 |
| 38 | Zalando Logistics Operations Italy S.R.L. | Bolzano, Italy | EUR | Directly | 100.0 |
| 39 | Zalando Logistics Operations Netherlands B.V. | Bleiswijk, Netherlands | EUR | Directly | 100.0 |
| 40 | Zalando Lounge Content Solutions SE & Co. KG** | Berlin | EUR | Directly<br>9 | 99.0<br>1.0 |
| 41 | Zalando Customer Care Central Services SE & Co. KG** | Berlin | EUR | Directly<br>2 | 99.0<br>1.0 |
| 42 | Zalando Stores GmbH & Co. KG** | Berlin | EUR | 10<br>2 | 99.0<br>1.0 |
| 43 | Fashion Circle GmbH | Berlin | EUR | Directly | 100.0 |
| 44 | Zalando Logistics Gießen SE & Co. KG** | Berlin | EUR | Directly<br>2 | 99.0<br>1.0 |
| 45 | Zalando BTD 003 GmbH | Berlin | EUR | Directly | 100.0 |
| 46 | Zalando BTD 007 SE & Co. KG** | Berlin | EUR | Directly<br>2 | 99.0<br>1.0 |
| 47 | Zalando Lounge Operations Bydgoszcz Polska Sp. z.o.o. | Olsztynek, Poland | PLN | Directly | 100.0 |
| **Associated companies and joint ventures** | | | | | |
| 48 | Le New Black SAS | Paris, France | EUR | 22 | 33.8 |

*) The number refers to the ID of the respective company in the list of shareholdings.
**) Companies whose unlimited liability partner is the parent company or another company included in the consolidated financial statements.

Changes in the list of shareholdings:

- Foundation of Zalando Lounge Operations Bydgoszcz Polska Sp. z.o.o.,
- Merger of Zalando Fashion Entrepreneurs GmbH with ZALANDO SE,
- Change of the company names of Zalando Logistics Operations Spain S.L.U. (prior year: zLabels Trading Southern Europe S.L.U.), Zalando Switzerland AG (prior year: Fision AG), Tradebyte Software Ltd. (prior year: Anatwine Ltd.) and Zalando Logistics Gießen SE & Co. KG (prior year: Zalando Logistics Services SE & Co. KG**).

**(9.) Disclosure exemptions**

In accordance with Section 264b HGB, the partnerships[24] 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 Studios Berlin GmbH, Zalando Marketing Services GmbH, Tradebyte Software GmbH, Connected Retail GmbH and Fashion Circle 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.

24) 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, 13, 14, 25, 36, 37, 40, 41, 42, 44 and 46.

Segment reporting 2021

| IN EUR M | Fashion Store | Offprice | All other segments | Total 2021 | Recon-ciliation | Total group |
|---|---|---|---|---|---|---|
| Revenue | 9,342.3 | 1,457.5 | 302.8 | 11,102.6 | -748.6 | 10,354.0 |
| *(prior year)* | *(7,257.7)* | *(978.1)* | *(196.0)* | *(8,431.8)* | *(-449.8)* | *(7,982.0)* |
| thereof intersegment revenue | 689.8 | 2.3 | 56.5 | 748.6 | -748.6 | 0.0 |
| *(prior year)* | *(403.9)* | *(1.3)* | *(44.7)* | *(449.8)* | *(-449.8)* | *(0.0)* |
| Cost of sales | -5,553.8 | -912.9 | -199.7 | -6,666.4 | 638.6 | -6,027.7 |
| *(prior year)* | *(-4,238.2)* | *(-586.0)* | *(-123.5)* | *(-4,947.7)* | *(359.9)* | *(-4,587.8)* |
| thereof intersegment cost of sales | -761.2 | 198.6 | -127.0 | -689.6 | 689.6 | -0.0 |
| *(prior year)* | *(-485.6)* | *(74.0)* | *(-64.5)* | *(-476.2)* | *(476.2)* | *(0.0)* |
| **Gross profit** | **3,788.5** | **544.7** | **103.1** | **4,436.2** | **-110.0** | **4,326.2** |
| *(prior year)* | *(3,019.5)* | *(392.1)* | *(72.5)* | *(3,484.2)* | *(-90.0)* | *(3,394.2)* |
| thereof intersegment gross profit | -71.5 | 200.9 | -70.5 | 58.9 | -58.9 | 0.0 |
| *(prior year)* | *(-81.7)* | *(75.2)* | *(-19.8)* | *(-26.3)* | *(26.3)* | *(0.0)* |
| Selling and distribution costs | -3,181.3 | -395.2 | -66.9 | -3,643.4 | 113.8 | -3,529.6 |
| *(prior year)* | *(-2,472.5)* | *(-269.3)* | *(-62.4)* | *(-2,804.2)* | *(88.2)* | *(-2,716.0)* |
| thereof intersegment selling and distribution costs | -53.1 | -33.2 | -38.4 | -124.7 | 124.7 | -0.0 |
| *(prior year)* | *(-40.9)* | *(-24.9)* | *(-33.2)* | *(-98.9)* | *(98.9)* | *(0.0)* |
| Administrative expenses | -309.7 | -53.1 | -30.5 | -393.3 | 0.1 | -393.2 |
| *(prior year)* | *(-255.4)* | *(-40.8)* | *(-23.8)* | *(-320.0)* | *(0.7)* | *(-319.2)* |
| Other operating income/expenses | 18.9 | 1.1 | 0.8 | 20.8 | 0.5 | 21.2 |
| *(prior year)* | *(5.2)* | *(0.4)* | *(1.2)* | *(6.8)* | *(1.2)* | *(8.0)* |
| **Earnings before interest and taxes (EBIT)** | **316.3** | **97.5** | **6.5** | **420.3** | **4.4** | **424.7** |
| *(prior year)* | *(296.9)* | *(82.3)* | *(-12.4)* | *(366.8)* | *(0.2)* | *(367.0)* |
| **Adjusted EBIT** | **349.5** | **104.8** | **9.7** | **463.9** | **4.4** | **468.4** |
| *(prior year)* | *(341.7)* | *(88.0)* | *(-9.1)* | *(420.6)* | *(0.2)* | *(420.8)* |

Of the total external revenue generated in the group, Germany accounts for the largest part at, 31.1% (prior year: 28.9%), followed by Switzerland with a share in the low double-digit percentage range. External revenues are attributed to countries on the basis of the place where Zalando transfers the promised goods or services to a customer. Most of the non-current assets of the group of EUR 1,901.4m are located in Germany (57.0%). The group also holds considerable non-current assets in its fulfillment centers in Poland (12.9%) and the Netherlands (12.1%).

Cost of sales include valuation allowances of inventories for the Fashion Store segment of EUR 223.7m (prior year: EUR 190.4m), for the Offprice segment of EUR 7.9m (prior year: EUR 27.8m) and for all other segments of EUR 0.0m (prior year: EUR 0.0m).

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 82.1m (prior year: EUR 65.4m), for the Offprice segment of EUR 0.0 (prior year: 0.0m) and for all other segments of EUR 2.9m (prior year: EUR 2.7m).

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 153.0m (prior year: EUR 157.4m), for the Offprice segment of EUR 29.9m (prior year: EUR 24.2m) and for all other segments of EUR 54.1m (prior year: EUR 34.8m).

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

### (11.) Subsequent events

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

No other significant events occurred between the reporting date (December 31, 2021) and the date the consolidated financial statements and the group management report were authorized for issue by the Management Board (February 28, 2022) 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 28, 2022.

Berlin, February 28, 2022

The Management Board

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

# Other information and service

# 4.1 Responsibility statement by the Management Board

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

Berlin, February 28, 2022

The Management Board

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

# 4.2 Independent auditor’s report

To ZALANDO SE

## Report on the audit of the consolidated financial statements and of the group management report

### Opinions

We have audited the consolidated financial statements of ZALANDO SE, Berlin, and its subsidiaries (the group), which comprise the consolidated statement of comprehensive income for the fiscal year from January 1 to December 31, 2021, the consolidated statement of financial position as at December 31, 2021, the consolidated statement of changes in equity and the consolidated statement of cash flows for the fiscal year from January 1 to December 31, 2021, 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, 2021. In accordance with the German legal requirements, we have not audited the content of the parts of the group management report specified in the appendix to the auditor’s report.

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

- the accompanying consolidated financial statements comply, in all material respects, with the IFRSs as adopted by the EU, and the additional requirements of German commercial law pursuant to Section 315e (1) HGB [“Handelsgesetzbuch”: German Commercial Code] and, in compliance with these requirements, give a true and fair view of the assets, liabilities and financial position of the group as at December 31, 2021 and of its financial performance for the fiscal year from January 1 to December 31, 2021, and
- the accompanying group management report as a whole provides an appropriate view of the group’s position. In all material respects, this group management report is consistent with the consolidated financial statements, complies with German legal requirements and appropriately presents the opportunities and risks of future development. Our opinion on the group management report does not cover the content of the parts of the group management report referred to in the appendix to the auditor’s report.

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

## Basis for the opinions

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

## Key audit matters in the audit of the consolidated financial statements

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

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

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

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

When selling merchandise to customers, ZALANDO SE typically satisfies its performance obligation when the merchandise is delivered, i.e., the date on which control is transferred to the customer. ZALANDO SE customers have the option to return merchandise free of charge within the revocation period stipulated by law and, in addition to that period, the return periods granted by ZALANDO SE. ZALANDO SE's executive directors calculate expected returns, for which no revenue is recognized. This calculation is based on assumptions and judgments in particular on country-specific, payment method-specific and month-specific rates of returns, taking seasonal influences into account. Revenue has a significant influence on the net income of the group and is one of the most important performance indicators for the Zalando group.

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

**Auditor's response**

In the course of our audit, we traced the process of revenue recognition for merchandise from the order through to payment receipt on the basis of the process 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 revenue from the sale of merchandise based on historical daily, weekly and monthly financial and non-financial data points and compared it with the revenue recognized in the reporting period. In addition, we examined the posting ledger for any revenue entries that were entered manually and analyzed the respective contra accounts.

Moreover, as part of the substantive audit procedures, we obtained documentation (delivery slips, invoices, payment receipts) for a test of sales based on mathematical-statistical assumptions regarding the existence of revenue in order to determine whether the revenue recognized was based on a corresponding delivery of merchandise. We also verified the clerical accuracy of the expected returns as determined by the executive directors of ZALANDO SE. We compared the assumed month-specific, payment method-specific and country-specific return rates with actual historical return rates, taking seasonal influences into account and analyzed them. In order to evaluate the assumed month-specific, payment method-specific and country-specific return rates, we also compared this to the merchandise actually returned according to the financial accounting by the time we concluded our audit.

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

**Reference to related disclosures**

With regard to the accounting policies applied for the recognition of merchandise revenue, we refer to the company's disclosures in Notes 3.5.5 (Accounting policies) and 3.5.7 (1) (Revenue) in the Notes to the consolidated financial statements.

### 2) Subsequent measurement of merchandise inventory

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

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

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

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

**Auditor’s response**

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

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

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

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

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

**Reference to related disclosures**

With regard to the accounting policies applied for the subsequent measurement of merchandise revenue, we refer to the company’s disclosures in Notes 3.5.5 (Accounting policies) and 3.5.7 (16) (Inventories) in the Notes to the consolidated financial statements.

**Other information**

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

Our opinions on the 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 by the EU and the additional requirements of German commercial law pursuant to Section 315e (1) of the HGB, and that the consolidated financial statements, in compliance with these requirements, give a true and fair view of the assets, 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

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

**Opinion**

We have performed assurance work in accordance with Section 317 (3a) HGB to obtain reasonable assurance about whether the rendering of the consolidated financial statements and the group management report (hereinafter the “ESEF documents”) contained in the attached file Zalando_SE_KA+KLB_ESEF_2021_12_31.zip (SHA-256-Prüfsumme: [a3d15caf99053abe8c9b14fa131cc15b58344298e364faf9751619cba05acd20]) and prepared for publication purposes complies in all material respects with the requirements of Section 328 (1) HGB for the electronic reporting format (“ESEF format”). In accordance with German legal requirements, this assurance work extends only to the conversion of the information contained in the consolidated financial statements and the group management report into the ESEF format and therefore relates neither to the information contained within these renderings nor to any other information contained in the file identified above.

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

**Basis for the opinion**

We conducted our assurance work on the rendering of the consolidated financial statements and the group management report contained in the attached file referred to above in accordance with Section 317 (3a) HGB and the IDW Assurance Standard: Assurance on the Electronic Rendering of Financial Statements and Management Reports Prepared for Publication Purposes in Accordance with Section 317 (3a) HGB (IDW AsS 410) (10.2021) and the International Standard on Assurance Engagements 3000 (Revised). Our responsibility in accordance therewith is further described in the “Group auditor’s responsibilities for the assurance work on the ESEF documents” section. Our audit firm applies the IDW Standard on Quality Management 1: Requirements for Quality Management in the Audit Firm (IDW QS 1).

### Responsibilities of the executive directors and the Supervisory Board for the ESEF documents

The executive directors of the company are responsible for the preparation of the ESEF documents including the electronic rendering of the consolidated financial statements and the group management report in accordance with Section 328 (1) Sentence 4 No. 1 HGB and for the tagging of the consolidated financial statements in accordance with Section 328 (1) Sentence 4 No. 2 HGB.

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

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

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

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

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

  Evaluate whether the tagging of the ESEF documents with Inline XBRL technology (iXBRL) in accordance with the requirements of Articles 4 and 6 of Commission Delegated Regulation (EU) 2019/815, in the version in force at the date of the financial statements, enables an appropriate and complete machine-readable XBRL copy of the XHTML rendering.

### Further information pursuant to Article 10 of the EU audit regulation

We were elected as group auditor by the Annual General Meeting on May 19, 2021. We were engaged by the Supervisory Board on July 28, 2021. We have been the 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:

- voluntary review of the company's half-year financial statements as at June 30, 2021
- audit of the system to comply with the requirements pursuant to Section 32 (1) WpHG ["Wertpapierhandelsgesetz": German Securities Trading Act]
- audit to obtain limited assurance of the non-financial statement pursuant to Section 289b et seq. and Section 315b et seq. HGB
- Monitoring and updating the tax compliance management system
- audit of the remuneration report of the company as at December 31, 2021
- translation services

**Other matter - use of the auditor's report**

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

**German public auditor responsible for the engagement**

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

## Appendix to the auditor's report

**1) Parts of the group management report whose content is unaudited**

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

- Corporate governance statement

Furthermore, we have not audited the content of the following disclosures extraneous to management reports. Disclosures extraneous to group management reports are such disclosures that are not required pursuant to Sections 315, 315a HGB or Sections 315b to 315d HGB or GAS 20:

- The charts "GMV by quarter (2017-2021)" and "Revenue by quarter (2017-2021)" in the "Development of revenue and GMV" section of the chapter "Economic situation".

## 2) Further other information

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

— Separate non-financial report

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

— the responsibility statement
— the report of the Supervisory Board
— the remuneration report
— the sections “Zalando at a glance”, “Zalando. The Starting Point for Fashion.”, “Expanding from 17 to 23 European markets”, “Getting closer to customers with new logistics sites”, “Partnering with Sephora to become a trusted destination for online beauty”, “Creating business opportunities for local stores with Connected Retail”, “Empowering customers to make more sustainable decisions”, the Management Board’s letter to the shareholders, “The Zalando share – 2021 in review” and the chapter “Other information and Service“ of the Annual Report

but not the consolidated financial statements, not the group management report disclosures whose content is audited and not our auditor’s report thereon.

Berlin, February 28, 2022

Ernst & Young GmbH
Wirtschaftsprüfungsgesellschaft

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

# 4.3 Glossary

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

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

### Average basket size
We define the average basket size as the Gross Merchandise Volume (including the Gross Merchandise Volume from our Partners Program) after cancellations and returns and including VAT, divided by the number of orders in the last 12 months of the reporting period. The Gross Merchandise Volume is defined as the total amount spent by our customers (including VAT) less cancellations and returns during the last twelve months.

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

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

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

### EBIT
EBIT is short for earnings before interest and taxes.

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

### Free cash flow
Cash flow from operating activities plus cash flow from investment activities (excluding investments in time deposits and restricted cash).

## GMV

GMV (Gross Merchandise Volume) is defined as the value of all merchandise sold to customers after cancellations and returns and including VAT, dynamically reported. It does not include B2B revenues (e.g. Partner Program commission, Zalando Marketing Services or Zalando Fulfillment Solutions) and other B2C revenues (e.g. service charges like express delivery fees); these are included in revenue only. GMV is recorded based on the time of the customer order.

## Net working capital

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

## Number of orders

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

## Private labels

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

## RMS

The Risk Management Team, as the dedicated instrument of the Management Board, has implemented a risk and opportunity management system (RMS) based on the framework of the Committee of Sponsoring Organizations of the Treadway Commission (COSO) Enterprise Risk Management Standard as well as on the Institute of Public Auditors in Germany (IDW) Assurance Standard 981.

## Site visits

We define site visits as the number of series of page views from the same device and the same source (via websites, mobile sites, tablet sites or apps) during the relevant period. The series is considered ended when a page view is not recorded for longer than 30 minutes. Due to a change in consent management following the GDPR introduction, some of the data is estimated using a statistical method.

# 4.4 Financial calendar 2022

Financial calendar

| Date | Event |
| --- | --- |
| Thursday, May 5 | Publication of the first quarter results 2022 |
| Wednesday, May 18 | Annual general meeting 2022 |
| Thursday, August 4 | Publication of the second quarter results 2022 |
| Thursday, November 3 | Publication of the third quarter results 2022 |

# 4.5 Imprint

## Editorial team and contact

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## Realization and production

With the collaboration of Amana consulting GmbH, Essen

## Photo credits

Zalando image pool, @Zalando/Oliver Tjaden, Adam Katz Sinding, Daniel Hofer

**Statement relating to the future**

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

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

zalando