

2.3 Subsequent Events

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

2.4 Risk and Opportunity Report

- Comprehensive risk and opportunity management implemented throughout the group
- Risks and opportunities are continuously monitored and managed
- The risk matrix clusters risks by probability of occurrence and qualitative impact
- Zalando wants to use the opportunities to create added value
- There is no indication in the current opportunity and risk situation that the existence of ZALANDO SE as a going concern is jeopardized

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

2.4.1 Integrated Risk and Opportunity Management System

The Management Board of ZALANDO SE assumes overall responsibility for setting up and operating an effective risk and opportunity management system for the Zalando group.

GRI 102-11

Successful risk management depends on group-wide standards for systematically handling risks and opportunities. For this purpose, Zalando created the Governance, Risk & Compliance (GRC) Department which identifies risks and opportunities at an early stage. The GRC function continuously refines the implemented risk management instruments and methodology and coordinates the defined core process (GRC cycle). The GRC cycle is designed to support the decision-making process with consistent, comparable and transparent information via standardized procedures to identify, assess, monitor, document and report on risks and the measures implemented. These standards are defined in the GRC manual and aligned with the Management Board.

The GRC function reports on the overall risk situation to the Management Board and to the Supervisory Board's audit committee on a biannual basis. If needed, the regular reporting process is supplemented by ad-hoc reporting. All employees of Zalando are requested to manage risks in their activities adequately and prevent or mitigate risks that could jeopardize the company's ability to continue as a going concern. The Internal Audit Team reviews the functional capacity and appropriateness of the risk management system regularly. In addition, the audit committee of the Supervisory Board, with the involvement of the statutory auditor, also monitors the effectiveness of the internal control, risk management and audit systems.

2.4.2 Countermeasures and Internal Control System

Zalando reviews all identified risks and opportunities at least twice a year to determine whether they are still valid and assessed correctly. The documentation is updated during each GRC cycle in the comprehensive risk catalog, which is set up as a risk control matrix (RCM). Relevant countermeasures, controls and responsibilities are assigned to each risk. The adherence and effectiveness of the relevant countermeasures and controls is assessed on a risk-based approach by the Internal Audit Team as part of their scheduled audits throughout the Zalando group.

System of Internal Financial Reporting Controls

In addition to the overall risk and opportunity management system described above, Zalando has implemented a more detailed system of internal financial reporting controls. Pursuant to Section 315 (4) HGB the key features of this system are explained below. It aims to identify, assess and manage all risks that could have a significant impact on the proper preparation of the separate and consolidated financial statements. As an integral component of the accounting and reporting process, the system of internal financial reporting controls comprises preventive, monitoring and investigative control measures in accounting and operational functions which ensure a methodical process for preparing the financial statements. The control system is based on the various company processes that have a significant impact on financial reporting.

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

2.4.3 Risk Methodology and Reporting

All risks identified are assessed based on their probability of occurrence and their potential impact within a one-year time horizon after the assessment date.

The impact assessment is conducted either on a quantitative scale (preferred) or a qualitative scale. The quantitative classes are based on a scale relating to the potential financial impact on profit (EBIT). Qualitative classes are based on criteria considering the impact on the company's reputation or the effect of criminal prosecution (with special focus on compliance risks). The risks are presented net, meaning the risk-minimizing measures implemented are considered in the scoring of risks.



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Each risk is positioned in the risk matrix using the following approach:

Zalando Risk Matrix

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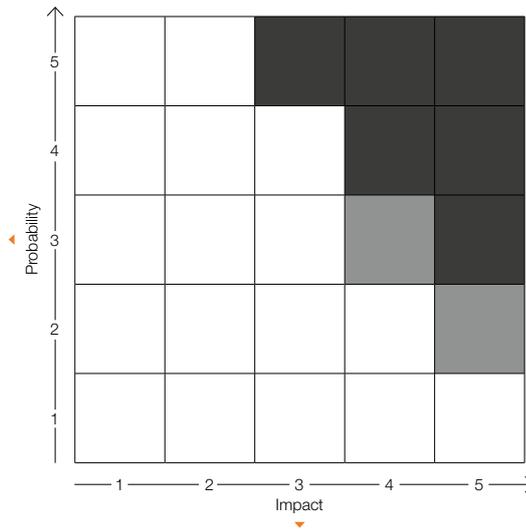


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Probability of occurrence (within the following year)

Class	Probability	Average
1	very low (0%–5%)	2.5%
2	low (5%–25%)	15%
3	medium (25%–50%)	37.5%
4	high (50%–75%)	62.5%
5	very high (75%–100%)	87.5%

- Zalando top risks
- Zalando expanded risk focus



Quantitative impact (preferred)

Class	Loss amount
1	EUR 0.075m–EUR 0.2m
2	EUR 0.2m–EUR 1.5m
3	EUR 1.5m–EUR 10m
4	EUR 10m–EUR 75m
5	> EUR 75m

Qualitative impact (alternative)

Class	Reputational effect	Criminal prosecution
1	very low	very low
2	low	low
3	medium	medium
4	high	high
5	very high	very high

In addition, risks in impact class 5 (quantitative) that exceed EUR 250m are denoted as risks that could jeopardize the company's ability to continue as a going concern.

All single risks and opportunities assessed as significant (Zalando top risks; Zalando expanded risk focus) using this methodology are described in detail in the section below. Overarching market opportunities and general opportunities are described in a separate section.

2.4.4 Overview of Current Risks and Opportunities

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

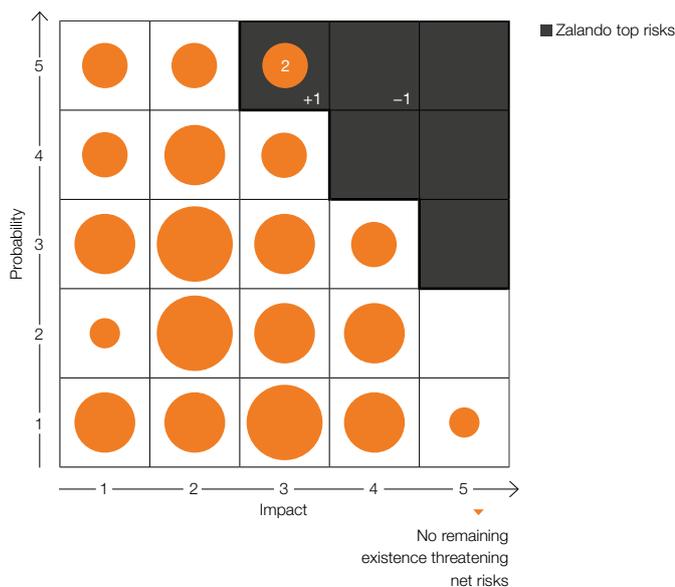
There are currently no net risks that would jeopardize the company's ability to continue as a going concern. Nevertheless, we deem two risks to be significant (top risks described below).

Risks with a Crucial Combination of Probability and Impact (Top Risks)

Based on the net risk view, risks are defined as top risks if they display a crucial combination of probability and impact (denoted by the dark grey-shaded area in the matrix).

Number of Top Risks (Net)

→ 29



Currently, risks from bad debt loss/external fraud and risks from overall outages with customer impact are considered as top risks for Zalando. Both risks were also part of the top risk section in fiscal year 2016 and are outlined below.

Risks of Payment Default / External Fraud
(Focus on Payment Transactions in the Retail Business)

The business concept of Zalando includes the offering of deferred payments (invoice) to its customers. Inherent to this payment method is a certain default quota that is to some extent anticipated by Zalando. The default risk is the risk that customers do not fulfill their contractual obligations and receivables remain unpaid. This can be the result of customers' payment habits or financial situation, or can be the result of fraud. Although applying multiple measures including a comprehensive payment and fraud management system to cope with the financial risk from default, the risk's probability remains at a high level. The size of Zalando's overall business produces large absolute deviations even with minor deviations from the planned relative ratios.

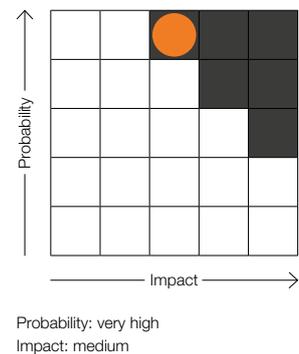
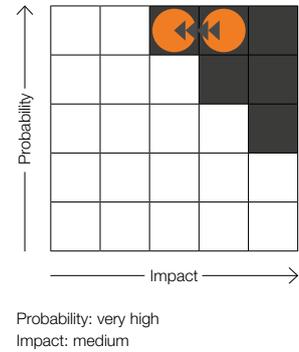
For the assessment of the risk, we considered a deviation from the anticipated level of bad debt loss. This anticipated bad debt loss is budgeted in our planning. In previous years, a general assessment of the bad debt loss was applied where the risk represented the full amount of defaults. As we anticipate the majority of the bad debt loss actually occurring as part of Zalando's business model and provide for it in the planning process, the risk assessment has been revised. Hence, the displayed risk shows the probability and deviation from the anticipated bad debt loss.

Risks from Overall Outages with Customer Impact
(Focus on Technology)

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

Monitoring systems are used, and incident management processes are established and documented. Incident management includes monitoring the financial impact and enables material incidents to be prioritized and solved. A system dashboard, which is continuously being improved, is utilized. Outsourced services (e.g. data center) are integrated in the monitoring processes, and adequate service level agreements are contracted. The Platform Infrastructure Team is responsible for ensuring these standards are in place throughout the development and deployment processes. Moreover, a "lessons-learned" process is implemented that, in case of system breakdowns, ensures that adequate measures derived from each incident are taken.

Preventive measures are implemented, and, in most cases, redundant systems are implemented, depending on the respective system. The group-wide incident management process was optimized with the implementation of a new automated incident management solution. To enable the teams to react faster, 24/7 availability of the teams was rolled out for approx. 60% of the technical engineers. To further improve monitoring and incident management, it is planned that SLI (service level indicators) & SLO (service level objectives) for each application are defined based on criticality, interdependencies to other systems, and customer impact.

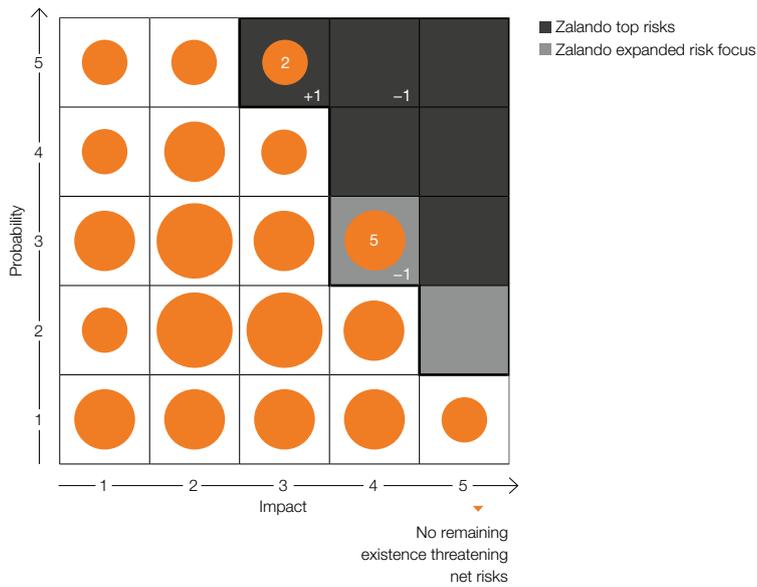


Expanded Risk and Opportunity Area

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

Number of Significant Net Risks

→ 30

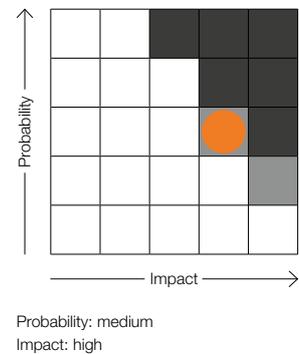


The number of risks within the Zalando expanded risk focus was reduced from six to five compared with fiscal year 2016, as additional implemented countermeasures are mitigating the “risk of missing market opportunities due to insufficient branding of private labels.” Despite the fact that the risk is no longer part of the expanded risk area, it is still closely monitored by the respective department, and additional countermeasures are planned for implementation.

Risk of Strike

Risks may emerge from strikes by workers employed in our warehouse facilities. The risk depends on various internal and external factors, including the degree to which the workforce is organized (membership in unions), the satisfaction of the workforce with the working conditions as well as activities of the unions regarding the industry in general or Zalando in particular. Strikes can lead to increased fulfillment costs, e.g. from dealing with backlogs and delays.

Zalando invests into good relationships with its employees. Zalando implements social standards audited by an external audit company and an open and continuous dialogue with its employees. The comprehensive wage strategy is guided by the relevant regional collective agreements for the logistics industry. Furthermore, Zalando strives to offer a good working environment and conditions, offers comprehensive employee development programs, and nurtures open and constructive communication with employees and their representatives.



2.4 RISK AND OPPORTUNITY REPORT

Opportunities from Improved Forecasts Planning and Alignment of the Categories and Assortment

Opportunities may be put at risk due to insufficient coordination of higher-level sales and sourcing planning. Lack of coordination and changes to plans may lead to planning errors. Furthermore, there is a risk that forecasts may be incorrect, meaning that predetermined budgets were calculated inaccurately. This, in turn, could lead to suboptimal budgeting in the different categories and unfavorable sourcing activities as well as missing logistics capacities.

Likewise, a forecast that delivers reliable predictions in combination with adequate coordination of higher-level sales and sourcing planning will enable Zalando to generate additional value through the budgeting and sourcing activities.

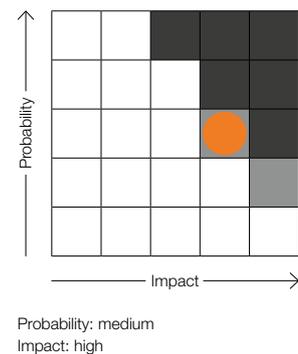
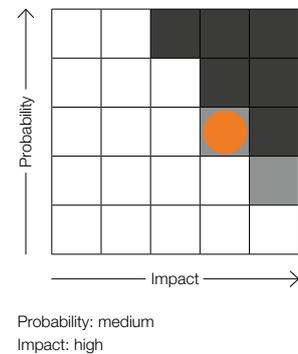
Zalando has set up a planning process on a rolling basis, which is carried out twice a year. The process is supported by the Merchandise Financial Planning function (MFP) and is managed overall by Category Controlling. Pre-season planning is prepared by the teams responsible for country clusters in cooperation with the individual Category Management Teams and brought into line with the higher-level category management planning. The plans are continuously refined with regular updates during the seasons (in-season planning). As deviations from the planned budget are likely to occur, adjustments in budgets are possible at short notice. Regular meetings on updates of plans take place, and the plans are aligned between category managers and other relevant departments.

The product-specific sales risk is countered by continuous sales analyses and budget planning. Zalando uses a detailed indicator system to identify negative discrepancies at an early stage and to implement appropriate measures in order to monitor and manage sales and stock levels. Additional flexibility can be achieved through follow-up orders. Returns to the supplier are negotiated and contracted to further mitigate the risk. In addition, Zalando recognizes write-downs on inventories to a sufficient extent. Inventory risk is an inherent risk to our business model and can have an impact anywhere along the supply chain.

Risks from Lack of "State of the Art" Shop and Service

In order to meet the rising and changing demands on lifestyle products and service and to realize market opportunities, innovative and appropriate adjustments constantly have to be made to the shops. Neglecting the necessary adjustments or inadequate implementation of such measures can lead to customer migration away from Zalando, followed by significant revenue losses.

A significant overarching countermeasure is the establishment of the Digital Experience Team for the Fashion Store with dedicated ownership for the evolution of the Fashion Store on-site experience. The team identifies and suggests relevant developments and adjustments and coordinates implementation with stakeholders, thus ensuring the continuous development of the shops.



Risks from Changing Regulatory Requirements within the Markets

With business activities in various countries, risks can arise from the quickly changing regulatory environments in many of them. Potential risk scenarios involve additional costs for necessary adjustments (customs, product safety, working conditions, product offering, consumer protection, etc.). In addition, subsequent events (exchange rate changes, unexpected customer behavior, reputational risks) can lead to increased damage. The risk exposure is mainly driven by anticipation of near-future to mid-term regulatory instruments in the context of the Digital Single Market initiative (DSM), the e-commerce sector inquiry of the EU Commission and the ePrivacy legislation. Risks might also arise due to legal uncertainties with regard to the implementation of recent enacted regulatory changes, such as the General Data Protection Regulation (GDPR) becoming applicable in May 2018. Attempts to address related issues within the member states or by events subsequent to Brexit are another risk factor. Changes in the regulatory framework can necessitate amendments to processes and business cases entailing an increase of costs or reduction of sales.

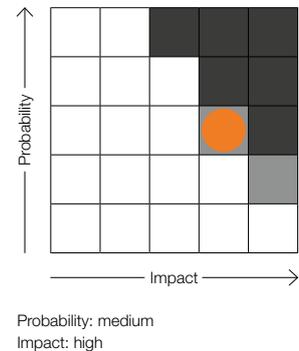
To reduce negative impact from regulatory changes, the GRC Department has implemented a Regulatory Watch process. This process ensures that relevant regulatory and legal topics are additionally allocated to the individual internal functions (e.g. Tax) that ensure the monitoring of changes throughout the markets by mandatory regular reports from these functions. The implementation of appropriate measures is initiated by the department to which responsibility for the respective topic is assigned.

The Regulatory Watch process is supported by Zalando's Legal Teams, who monitor regulatory changes by utilizing different channels (e.g., conferences and seminars, cooperation with external law firms, latest specialist literature) and initiate appropriate countermeasures together with the departments affected.

With regard to the main risk drivers, Zalando initiated the following mitigation measures:

DSM: Zalando's Public Affairs Team has started a dialogue with external stakeholders at EU level to give feedback and receive updates concerning planned regulations. Developments are being monitored and examined by the Legal Team for possible effects on Zalando's business case.

GDPR: The Data & IT Law Team, in close cooperation with the teams in Digital Foundation and Tech-Security, have set up and are executing a GDPR project, implementing previously identified new and changed regulatory requirements arising under the GDPR. In the process, the teams are reviewing, updating and refining the overarching privacy design and information security setup at Zalando.



ePrivacy: The Data & IT Law Team performed an in-depth analysis of the regulatory changes set out in the drafts of the ePrivacy regulation (ePrivacy Drafts) published by EU policy makers during the 2017 fiscal year. Together with relevant internal stakeholders, potentially affected business cases have been identified, and the risks emanating from the ePrivacy Drafts have been assessed, qualified and prioritized. Subsequently, mitigation measures were put into action. These include engagement with policy makers on the national and EU levels in close coordination with the Public Affairs Team and the preparation and roll-out of innovative solutions, workarounds and initiatives with external business partners, each with a view to reducing the potential impact on the identified business cases.

EU e-commerce sector inquiry: Zalando cooperated with the EU Commission and provided appropriate information following a request for information. The EU Commission adopted the final report on its inquiry and subsequent enforcement measures are being monitored closely by Zalando.

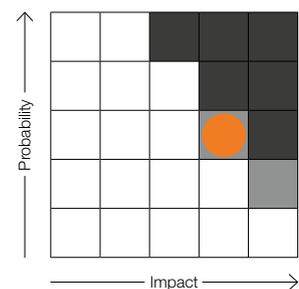
Brexit: a task force has been set up by the Legal Team to gather and evaluate Zalando-specific risks as a result of Brexit.

Risks from a Lack of Innovation Capabilities

The ability to promptly implement innovations as well as products catering to current market trends is a precondition for sustainable success. A strong innovation culture needs to exist throughout the company. Structures, decision making and budgets need to ensure the desired innovation capability.

To ensure innovativeness, the management ensured that a number of management principles were implemented to foster an innovative culture, such as the concept of agile software development (radical agility) and the concept of de-centralized decision making (dedicated ownership).

Project proposals are continuously being prepared and validated by dedicated owners, and projects concerning customer benefits are being prioritized.



Probability: medium
Impact: high

Financial Risks

Zalando is required to describe its financial risks pursuant to Section 289 (2) No. 1b HGB. In the course of its ordinary activities, Zalando is exposed to counterparty risk, liquidity risk, and currency and interest-rate risks. The aim of financial risk management is to limit the risks resulting from operating activities through the use of selected derivative and non-derivative hedging instruments. Derivative financial instruments are used solely for the purpose of risk management.

Counterparty Risk

Counterparty risk refers to the risk that a counterparty may default on its obligation to Zalando. The default risk mainly arises from trade receivables and, to a lesser extent, in terms of probability of occurrence from claims originating from financial contracts with other parties, e.g. term deposits, derivative financial assets and bank account balances.

The company addresses this exposure by distributing its derivative financial instruments and cash held at banks over multiple financial institutions to minimize risk exposure to a single counterparty (also by setting maximum investment amounts). In addition, counterparty credit rating criteria are applied as well.

Liquidity Risk

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

Zalando manages its exposure to liquidity risk by regularly monitoring liquidity needs using an integrated platform for short-, medium-, and long-term forecasting of the cash requirements by entity. Additionally, the group invests the cash reserves of the company in term deposits and money market instruments with a target maturity profile, and pools the cash balances centrally on a regular basis to ensure adequate distribution of cash where it is needed.

Currency and Interest Rate Risk

The currency risk is defined as the risk of differences in actual and planned foreign exchange revenue and cost items as a result of fluctuating exchange rates, with a potential negative impact on the company's financial results. Likewise, the interest rate risk is defined as the risk of changes in interest due on maturing debt as a result of varying reference interest rates, with potential negative implications for interest expenses.

Zalando operates in different markets and is therefore exposed to foreign currency risk generated from revenues and sourcing transactions in foreign currencies. Currency exposure is managed by means of regular cash pooling to the EUR as the functional currency, natural hedging, and forwards hedging.

Forward contracts are recognized as cash flow hedges if the conditions of hedge accounting are fulfilled. Once the hedged item has been realized as a cash flow hedge, the forward exchange contracts are used as fair value hedges to compensate for market value fluctuations of the outstanding trade receivables and trade payables and similar liabilities denominated in foreign currency. Forward exchange contracts are concluded with a term not exceeding 18 months. Derivative financial

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

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

If the euro had appreciated by 5% against the foreign currencies as of December 31, 2017, earnings before taxes would have been EUR 5.0m lower (prior year: EUR 7.3m). If the euro had depreciated 5% compared with the exchange rate as of December 31, 2017 earnings before taxes would have been EUR 5.6m higher (prior year: EUR 8.1m).

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

Foreign Currency Sensitivity on Profit or Loss 2017

→ 31

IN EUR M	Impact on profit or loss							Total
	CHF	DKK	GBP	NOK	PLN	SEK	USD	
FX rate as Dec 31, 2017	1.1702	7.4449	0.8872	9.8403	4.1770	9.8438	1.1993	
5% increase in FX rate	-1.2	-0.4	0.0	-0.3	-1.9	-0.2	-0.9	-5.0
5% decrease in FX rate	1.3	0.5	0.0	0.3	2.1	0.2	1.0	5.6

The reserve for derivatives in group equity would have been EUR 38.8m higher (prior year: EUR 34.6m higher) if the euro had appreciated 5% compared with the exchange rate as of December 31, 2017. This reserve would have been EUR 42.9m lower (prior year: EUR 38.2m 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 2017

→ 32

IN EUR M	Impact on other comprehensive income							Total
	CHF	DKK	GBP	NOK	PLN	SEK	USD	
FX rate as Dec 31, 2017	1.1702	7.4449	0.8872	9.8403	4.1770	9.8438	1.1993	
5% increase in FX rate	26.4	0.0	-0.8	5.1	8.0	7.0	-6.9	38.8
5% decrease in FX rate	-29.2	0.0	0.9	-5.7	-8.9	-7.8	7.7	-42.9

The interest rate risk arises from interest rate fluctuations on the earnings, equity or cash flow for the current or future reporting period. Interest rate risks from financial instruments in the group are mainly related to financial liabilities and liabilities from the reverse factoring programs. These risks are partly reduced by entering into interest rate swap.

The interest rate risk for floating-rate financial instruments does not represent a material risk for the group.

Market Opportunities

Macroeconomic Development

The European Commission projects eurozone growth of 1.8% in 2018 and EU growth of 1.8%²⁹. Private consumption is expected to be one of the main drivers of growth during the forecast period. Labor market gains across important European economies will also contribute to an increase of disposable income in real terms. The World Bank's forecast is also optimistic, with growth in the region predicted to accelerate to 2.1% in 2018 – and an average of 1.6% between 2019–2020³⁰, driven by a recovery in commodity-exporting economies and improved confidence. This outlook is predicated on the basis of a continued, but modest, recovery in commodity prices and easing geopolitical tension.

In Germany, it is expected that growth momentum will continue. The solid labor market, resilient exports and booming construction investment are expected to provide a boost to growth and drive private consumption. These developments give Zalando a favorable economic and consumer market to reinforce its market position and increase its revenue.

Growing Fashion Market in Europe

European online fashion sales amounted to roughly EUR 55.6bn in 2017, making up 13%³¹ of all fashion retail³². While the overall market for fashion in Europe (excluding Russia) remained virtually unchanged between 2016 and 2017, online fashion sales grew at a considerably faster rate with average annual growth (CAGR) of approximately 12% during the past 5 years.³³ This trend is forecasted to continue as the percentage of people in the overall population who became familiar with digital technology at a young age continues to rise.

Europe is a highly attractive fashion market with concentrated wealth and a high population density. These factors work to the advantage of online fashion sales.

Zalando is well positioned to benefit from these favorable market conditions due to the strength of its fashion brand, its consumer reach, its brand partner relationships, the scale of its technology and fulfillment operations across European markets, and its deep understanding of the digital economy.

The online retail market in Europe reported revenue totaling EUR 55.6bn in 2017, with a CAGR of 12% since 2012.³⁴ While the online share of retail trade in the United States came to 20% in 2017³⁵, the online share of retail trade in Zalando's target market, Europe, rose from 13% in 2016 to 15% in 2017³⁶.

As the online retail market continues to grow, Zalando's focus on providing customers with unique fashion experiences, convenient delivery services, and a leading digital shopping experience puts the group in a favorable position to further expand its revenue and market share. As Zalando



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29) European Commission 2017
30) World Bank 2018
31) Euromonitor, Europe excl. Russia
32) Euromonitor, Europe excl. Russia
33) Euromonitor, Europe excl. Russia
34) Euromonitor, Europe excl. Russia
35) Euromonitor, United States of America
36) Euromonitor, 15 countries, in which Zalando operates

further cements its position as a trusted and well-loved fashion companion, we will continue to win new customers and retain existing ones for the long term. Most importantly, the strategic realignment to move towards a platform business model will create new opportunities for growth. It is envisioned that the platform business model brings together different fashion stakeholders, which will in turn help to enhance selection, expand inspiration channels, and improve convenience services. Moreover, Zalando can continue to exploit the high online market potential for European fashion through its presence, which now extends to 15 European countries, and the constant expansion of its own product range.

Mobile Commerce

Mobile commerce provides a significant opportunity. Retail sales generated via mobile devices have risen significantly within Europe, amounting to EUR 85.56bn in 2017 compared to EUR 67.31bn in 2016³⁷. Moreover, a further growth at a 13% CAGR is expected in the upcoming years.³⁸ This growth has been driven by the ubiquity of mobile device usage. Today's customers use their mobile devices on a daily basis to engage in a wide variety of activities ranging from browsing and shopping for products, interacting with brands on social media channels, scheduling deliveries, to tapping their smart assistants for product and sizing recommendations.

As the number of mobile commerce use cases continues to multiply, we see a parallel trend whereby users are starting to rely on a smaller number of apps to power their mobile channel experiences. At Zalando, we are aware that in order to differentiate ourselves and stay relevant, we need to leverage our mobile channels to connect customers with the right information in order to help them make informed shopping decisions. With this goal in mind, Zalando's focus is on designing superior mobile experiences to meet the customer anytime, anywhere: be it on its mobile app, its mobile site, social apps, or other connected devices. As a customer centric-company, Zalando is constantly looking for innovative ways to leverage mobile channels to interact with customers, empower them, and help them discover fashion in new and inspiring ways. During 2017, Zalando set up a dedicated team around mobile apps to gain speed on the development of mobile products, to improve the technical foundation and the ways to market apps on different channels (e.g. Facebook, Google, Snapchat).

General Opportunities Arising from Zalando's Business Activities

Innovative and Scalable Logistics

Over the past few years, Zalando has made significant investments to expand and automate its pan-European logistics network – now consisting of seven fulfillment centers in four countries – such as implementing and ramping up a bag-sorter in Mönchengladbach, bringing our warehouse operation to a new level of automation. In 2017, a new fulfillment center in France near Paris went live, and another one in Sweden commenced operations but is still under construction. Another new fulfillment center in Poland started initial operations in fall 2017, while two additional new fulfillment center projects have been initiated – one in Poland and another in Italy. All these efforts are aimed on getting closer to Zalando's customers, thus providing an opportunity to further reduce lead times as well as preparing our network for further growth.

Scalable and innovative logistics provide a source of new growth opportunities for Zalando. They not only enable the company to expand its coverage of convenience benefits, but they also enhance Zalando's attractiveness as an essential and effective logistic partner for fashion brands and retailers.



zln.do/en-logistics-network

³⁷⁾ Euromonitor, Europe excl. Russia

³⁸⁾ Euromonitor, Europe excl. Russia

In 2017, Zalando extended the service Zalando Fulfillment Solutions (ZFS), making logistics infrastructure and know-how available to brand partners. Through this new service, partners such as Bestseller can now leverage Zalando's logistic capabilities to scale up their businesses internationally and provide the highest delivery standards for their customers across Europe. Currently, ZFS is supported by one dedicated fulfillment center, but the goal is to roll out this offering to more fulfillment centers. ZFS will play a critical role in supporting the growth of Zalando's Partner Program.



zln.do/en-zfs

Innovative logistics are a crucial component behind Zalando's convenience proposition as they enable the company to meet customers' heightened convenience expectations. Faster deliveries and a growing number of delivery options tailored to customer needs would not be possible without innovative logistics, e.g. new services such as same day delivery and return on demand in selected cities. These initiatives are then also leveraged to bring to life services such as "From Store to Door" – direct deliveries from retail stores of selected brand partners to their customers' homes. Zalando is committed to enhancing its innovative and scalable logistics in order to help brand partners grow and to ensure that customers' shopping experience becomes even easier, faster, and more convenient.



zln.do/en-post-order-experience

Smart Data

Data is at the core of Zalando's platform. By combining data with appropriate technology tools, Zalando is able to effectively play a matchmaking role and facilitate frictionless interactions between supply- and demand-side players in the fashion ecosystem. In this regard, the Zalando platform is geared towards increasing legally compliant data flows between platform stakeholders (e.g. fashion brands, manufacturers, stylists, content creators, logistics, and service providers) in order to unlock new growth opportunities and generate additional value for everyone.

Gaining a good understanding of customer preferences and fashion trends is a prerequisite for effectively connecting platform stakeholders and enabling new ways of consuming and producing fashion. Zalando also leverages data to optimize every aspect of the business through more accurate production forecasts, improved personalization, targeted advertising and smart fulfillment services. The company's overarching objective is to develop scalable solutions that can help both brand partners and customers navigate the digital fashion universe.



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Innovative Technology

Technology forms the backbone of Zalando and drives all workflows – from automating wholesale buying, personalizing customer's shopping journey, to seamlessly connecting fashion partners' stock to online platforms. Furthermore, technology not only underpins every internal business process and digital solution offered on the platform, but it is also increasingly leveraged to reduce inefficiencies in the broader fashion ecosystem.

Due to the increased complexity of digital infrastructure, fashion brands and retailers need additional support to digitalize their businesses. In this context, Zalando's ability to combine fashion competence with advanced technological capabilities makes it an attractive partner to help brands and retailers accelerate their online growth. Customers also benefit from technological advances. Zalando is currently building the infrastructure needed to move from recommendations to personalized fashion advice across all customer touch points. New solutions, powered by artificial intelligence (AI), are being implemented to help customers find their unique size and fit preferences.



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Technology is not only a major driver of efficiencies in the fashion ecosystem, but it is also a source of new models and opportunities to produce, consume, and discover fashion. Through continuous investments and strategic acquisitions, Zalando intends to consolidate its position at the forefront of the technological transformation of the fashion ecosystem.

Local Alignment

The European market is extremely heterogeneous, with highly localized needs for fashion styles, payment methods, and delivery options. No other online fashion retailer understands the particularities of all European markets as well as Zalando does. The company is able to adapt its customer and partner proposition to every single market in which it operates. Localization is – and will continue to be – one of Zalando’s core differentiators. We will continue building our image of a local fashion specialist through country-specific campaigns and by reflecting local characteristics in our respective sales approach.

At the same time, Zalando uses a central platform and infrastructure to source its merchandise, fulfill orders, and leverage technology solutions across Europe. This approach provides a source of additional competitive advantages since it generates economies of scale that make platform investments possible. These capabilities endow Zalando with first-mover advantages to pursue new opportunities and quickly respond to fast fashion trends emerging across markets in Europe.

Fashion Expertise

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

With its internally designed labels, Zalando offers products whose lifecycle is managed under one umbrella from the design phase right through to sale. Zalando has succeeded in creating popular brands with a loyal customer base and has started to also offer the products through additional external distribution channels.

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

Having built up a base of about 500 freelance stylists under the Zalon brand, Zalando has access to a huge pool of fashion experts willing to build a business together with Zalando and bringing in deep fashion knowledge from a vast number of different fashion markets. At Zalon, the stylists are able to offer a highly personalized experience since not one single box they put together resembles another. Adding additional services to our offering, such as most recently subscription and messaging, Zalando is able to leverage stylists’ skills even more in the future, contributing to an inspiring and convenient customer journey.

An Attractive Partner

Fashion brands and retailers value Zalando as a preferred partner due to its fashion competency and technological capabilities. Zalando supports partners to connect with customers across Europe and helps them tackle some of the most complex and challenging issues that they face across the



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fashion ecosystem. In this sense, Zalando enables brands and retailers within its Partner Program to sell their merchandise via the Zalando platform and provides tools that are necessary for partners to adjust their digital content across the markets. Zalando's online flagship stores are at the heart of this approach, enabling partners to interact directly with customers and build loyalty for their brand.

In response to the rapid pace of transformation in the fashion ecosystem, Zalando has expanded its partner proposition to help brands stay on top of new developments and technologies. The company has moved beyond providing data insights tools to offering holistic technology solutions tailored to partners' specific needs. This includes, but it is not limited to: Zalando Fulfillment Solutions (ZFS), stock integration technologies, and marketing and advertising services. The overarching goal is to help brands grow their online presence by helping them to simplify their e-commerce operations both on and off the Zalando platform. As Zalando continues to innovate its partner offering, new and interesting opportunities emerge to create new fashion products and services on top of the platform.

Personnel Opportunities

Zalando's successful growth is based on the competencies and motivation of its employees. Due to the considerable growth of its core business, the penetration of new business areas, and the rapid international expansion, Zalando constantly needs to strengthen its team. This is supported by an improved performance and development approach for all employees and by diverse initiatives to foster our culture at Zalando.

Recruiting plays a key role in human resources work. Recruiting highly skilled employees can help boost efficiency and foster innovation and creativity, thus increasing revenue and profitability. The recruiting process therefore was improved by different tools to speed up the process and to support the hiring of desired talents.