Consolidated financial statements 2012[1]

Zalando GmbH, Berlin

[1] Note in accordance with § 328 Para. 2 German Commercial Code (HGB; Handelsgesetzbuch): The consolidated group financial statements referenced here are presented in an abbreviated form without the accompanying group management report and thereby do not comply with the regulation applying to full scope financial statement publication in accordance with § 328 Para. 1 German Commercial Code. The complete set of financial information including the accompanying group management report have been subject to a compulsory financial statement audit and received an unqualified audit opinion in accordance with § 322 Para. 2 Sent. 1 Nr. 1 German Commercial Code. Also, the complete set of financial information including the accompanying group management report has been submitted for publication in the German Federal Gazette (Bundesanzeiger)

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Consolidated statement of comprehensive income

for the fiscal year from 1 January 2012 to 31 December 2012

in EUR k	Note	1 Jan - 31 Dec 2012	1 Jan - 31 Dec 2011
Revenue	(1.)	1,158,675	509,943
Cost of sales	(2.)	-613,052	-270,673
Gross profit		**545,623**	**239,270**
Selling and distribution costs	(3.)	-526,859	-260,221
Administrative expenses	(4.)	-83,242	-32,625
Other operating income	(5.)	6,704	2,535
Other operating expenses	(6.)	-25,801	-7,906
Earnings before interest and taxes (EBIT)		**-83,575**	**-58,947**
Interest income	(7.)	1,447	451
Interest expenses	(7.)	-2,405	-1,097
Other financial result		-21	4
Financial result		**-979**	**-642**
Earnings before taxes (EBT)		**-84,554**	**-59,589**
Income taxes	(8.)	-516	-153
Net loss for the period		**-85,070**	**-59,742**
Thereof net loss attributable to the shareholders of Zalando GmbH		*-85,070*	*-59,742*
Net loss for the period as a percentage of revenue		*-7.3%*	*-11.7%*

Reconciliation of the profit or loss for the period to total comprehensive income

in EUR k	1 Jan - 31 Dec 2012	1 Jan - 31 Dec 2011
Net loss for the period	**-85,070**	**-59,742**
Effective portion of gains/losses from cash flow hedges, net of tax	-499	0
Exchange differences on translation of foreign financial statements	-33	0
Other comprehensive income	-532	0
Total comprehensive income	**-85,602**	**-59,742**
Thereof net loss attributable to the shareholders of Zalando GmbH	*-85,602*	*-59,742*

Consolidated statement of financial position

as of 31 December 2012

Assets

in EUR k	Note	31 Dec 2012	31 Dec 2011
Non-current assets			
Intangible assets	(10.)	9,947	3,848
Property, plant and equipment	(11.)	45,172	14,542
Investments		0	120
Other financial assets	(12.)	31,684	6,630
		86,803	**25,140**
Current assets			
Inventories	(13.)	228,723	108,120
Prepayments	(13.)	1,552	1,084
Trade receivables	(14.)	105,477	33,378
Other financial assets	(15.)	14,407	784
Other non-financial assets	(15.)	18,592	3,649
Cash and cash equivalents	(16.)	382,307	101,829
		751,058	**248,844**
Total assets		**837,861**	**273,984**

Consolidated statement of financial position

as of 31 December 2012

Equity and liabilities

in EUR k	Note	31 Dec 2012	31 Dec 2011*
Equity			
Issued capital	(17.)	111	93
Capital reserves	(17.)	628,625	190,368
Retained earnings		-532	0
Accumulated loss	(17.)	-170,008	-84,938
		458,196	**105,523**
Non-current liabilities			
Provisions	(19.)	2,234	553
Government grants	(20.)	1,925	1,482
Financial liabilities	(24.)	11,100	0
Other financial liabilities	(22.)	1,842	850
Other non-financial liabilities	(22.)	1,983	8
		19,084	**2,893**
Current liabilities			
Provisions	(19.)	35,323	9,936
Financial liabilities	(24.)	3,243	0
Trade payables	(21.)	294,624	135,045
Prepayments received	(21.)	2,243	1,381
Income tax liabilities	(22.)	384	349
Other financial liabilities	(22.)	7,192	4,631
Other non-financial liabilities	(22.)	17,572	14,226
		360,581	**165,568**
Total equity and liabilities		**837,861**	**273,984**

* The allocation to the liability items was changed and the 2011 fiscal year was restated as described in the notes.

Consolidated statement of changes in equity

for the fiscal year from 1 January 2012 to 31 December 2012

				Retained earnings			
in EUR k	**Note**	**Issued capital**	**Capital reserves**	**Income from cash flow hedges**	**Differences from foreign currency translation**	**Accumulated loss**	**Total**
As of 1 January 2012		**93**	**190,368**	**0**	**0**	**-84,938**	**105,523**
Net loss for the period		0	0	0	0	-85,070	-85,070
Other comprehensive income		0	0	-499	-33	0	-532
Total comprehensive income		**0**	**0**	**-499**	**-33**	**-85,070**	**-85,602**
Capital increase	(17.)	18	431,784	0	0	0	431,802
Share-based payments	(18.)	0	5,633	0	0	0	5,633
Shareholder contributions	(17.)	0	840	0	0	0	840
As of 31 December 2012		**111**	**628,625**	**-499**	**-33**	**-170,008**	**458,196**

for the fiscal year from 1 January 2011 to 31 December 2011

				Retained earnings			
in EUR k	**Note**	**Issued capital**	**Capital reserves**	**Income from cash flow hedges**	**Differences from foreign currency translation**	**Accumulated loss**	**Total**
As of 1 January 2011		**83**	**60,000**	**0**	**0**	**-24,985**	**35,098**
Net loss for the period		0	0	0	0	-59,742	-59,742
Other comprehensive income		0	0	0	0	0	0
Total comprehensive income		**0**	**0**	**0**	**0**	**-59,742**	**-59,742**
Capital increase	(17.)	10	128,227	0	0	0	128,237
Share-based payments	(18.)	0	2,141	0	0	0	2,141
Other changes		0	0	0	0	-211	-211
As of 31 December 2011		**93**	**190,368**	**0**	**0**	**-84,938**	**105,523**

Consolidated statement of cash flows

for the fiscal year from 1 January 2012 to 31 December 2012

in EUR k			Note	1 Jan – 31 Dec 2012	1 Jan – 31 Dec 2011*
1.		Earnings before interest and taxes		-83,575	-58,947
2.	+	Non-cash expenses from share-based payments	(18.)	6,473	2,141
3.	+	Amortization and depreciation of non-current assets	(10.), (11.)	6,688	1,792
4.	+/-	Increase/decrease in provisions	(19.)	27,068	5,475
5.	+/-	Other non-cash expenses/income		410	0
6.	+/-	Increase/decrease in inventories	(13.)	-120,603	-66,887
7.	+/-	Decrease/increase in trade receivables	(14.)	-72,099	-19,052
8.	+/-	Decrease/increase in other assets		-28,514	-4,786
9.	+/-	Increase/decrease in trade payables	(21.)	159,579	89,479
10.	+/-	Increase/decrease in other liabilities		11,884	10,044
11.	-	Interest paid	(7.)	-2,483	-921
12.	+	Interest received	(7.)	1,447	528
13.	-	Income tax paid	(8.)	-610	-6
14.	**=**	**Cash flow from operating activities**		**-94,335**	**-41,140**
15.	-	Cash paid for investments in property, plant and equipment	(11.)	-37,029	-9,753
16.	-	Cash paid for investments in intangible assets	(10.)	-9,540	-3,173
17.	+/-	Change in restricted cash	(12.)	-24,741	-6,320
18.	**=**	**Cash flow from investing activities**		**-71,310**	**-19,246**
19.	+	Cash received from capital increases by the shareholders	(17.)	431,802	128,237
20.	+	Cash received from loans		15,116	0
21.	-	Cash repayments of loans		-774	0
22.	+/-	Other finance-related cash changes		-21	0
23.	**=**	**Cash flow from financing activities**		**446,123**	**128,237**
24.	=	Net change in cash and cash equivalents from cash relevant transactions		280,478	67,851
25.	+	Cash and cash equivalents at the beginning of the fiscal year		101,829	33,978
26.	**=**	**Cash and cash equivalents as of 31 December**		**382,307**	**101,829**

* The allocation to the activities was changed and the 2011 fiscal year was restated as described in the notes.

Notes to the consolidated financial statements

A. Corporate information

Company, registered office

Zalando GmbH, Berlin, Germany

Address of management

Sonnenburger Str. 73, 10437 Berlin, Germany

Commercial register

The Company is filed with the Berlin-Charlottenburg district court under HRB No 112394 B and was entered in the commercial register there on 12 March 2008.

Nature of operations

Zalando is an e-commerce company offering shoes and fashion items on the internet. The wide range of items for women, men, and children extends from popular trendy brands to sought-after designer labels. In addition to shoes and clothing, Zalando also offers accessories and beauty products as well as sporting goods and home decoration items as part its extensive product range. Zalando's offering has been broadened and enhanced with the Zalando Lounge, which offers registered members additional special offers at discounted prices. The Company was founded in 2008 and has its registered offices in Berlin. After its successful start in Germany, Zalando has also been a supplier to neighboring countries in Europe since 2009. As of the end of 2012, Zalando had business activities in 14 European countries.

B. General

Zalando GmbH, Berlin, is the parent of the Zalando Group ("Zalando" or the "Group"). The consolidated financial statements of Zalando GmbH and its subsidiaries as of 31 December 2012 have been prepared in accordance with International Financial Reporting Standards (IFRSs) as adopted by the EU, and the additional requirements of German commercial law pursuant to Sec. 315a (1) in conjunction with Sec. 315a (3) HGB ["Handelsgesetzbuch": German Commercial Code].

Sec. 315a HGB represents the legal basis for group accounting according to international financial reporting standards in Germany in conjunction with EC Regulation No. 1606/2002 of the European Parliament and of the Council of 19 July 2002 on the application of international accounting standards. Zalando makes use of the option granted in Sec. 315a (3) HGB, which allows a parent company to prepare its consolidated financial statements in accordance with IFRSs provided it applies the IFRSs in full.

The consolidated financial statements take into account all IFRSs endorsed as of the reporting date and whose adoption is mandatory in the European Union. Compliance with the standards and interpretations gives a true and fair view of the Zalando Group's net assets, financial position and results of operations.

In principle, the consolidated financial statements have been prepared by accounting for assets and liabilities at amortized cost. The income statement has been prepared using the function of expense method. The statement of financial position is classified based on the maturities of assets and liabilities.

The consolidated financial statements are presented in euros. All values are rounded to the nearest thousand (EUR k) in accordance with commercial practice except when otherwise indicated.

C. New accounting standards issued by the IASB

Pursuant to Regulation (EC) No. 1606/2002 in conjunction with Sec. 315a (1) HGB, the financial reporting standards issued by the IASB and endorsed by the European Commission for adoption in the European Union are the basis for IFRS accounting. The new or revised IFRSs published by the IASB enter into effect only after a corresponding decision has been made by the Commission as part of the endorsement procedure.

The standards and interpretations that are issued, but not yet effective, up to the date of issuance of the Group's financial statements are disclosed below. Unless otherwise indicated, the standards and interpretations or revisions of existing standards are applicable for reporting periods beginning on or after the specified effective date.

IFRS 9 – Financial Instruments: Classification and Measurement

The current status of IFRS 9 reflects the first phase of the IASB project to replace IAS 39. This standard deals with the classification and measurement of financial assets and financial liabilities, which are currently accounted for in accordance with IAS 39. The original plan provided for the standard to be adopted for the first time in reporting periods beginning on or after 1 January 2013. The amendment to IFRS 9 *Mandatory Effective Date of IFRS 9 and Transition Disclosures* published in December 2011 postponed the date of mandatory first-time adoption to 1 January 2015. In subsequent phases, the IASB will address hedge accounting and the impairment of financial assets. The Group will quantify the effect in conjunction with the other phases when the final standard including all phases is issued. IFRS 9 has not yet been endorsed by the European Union for adoption.

IFRS 7 — Offsetting Financial Assets and Financial Liabilities — Amendments to IFRS 7

These amendments require an entity to disclose information about rights to set-off and related arrangements (e.g., collateral agreements). The disclosures are to provide users with information that is useful in evaluating the effect of netting on an entity's financial position. The new disclosures are required for all recognized financial instruments that were set off in accordance with IAS 32 *Financial Instruments: Presentation*. They also apply to recognized financial instruments that are subject to an enforceable master netting arrangement or similar agreement, irrespective of whether they are set off in accordance with IAS 32. The amendment is effective for reporting periods beginning on or after 1 January 2013. The amendment to IFRS 7 is not expected to have any effect on the net assets, financial position and results of operations of the Group.

IFRS 10 – Consolidated Financial Statements

IFRS 10 was published in May 2011. The standard replaces the consolidation guidelines of IAS 27 *Consolidated and Separate Financial Statements* and SIC 12 *Consolidation – Special Purpose Entities*. IFRS 10 will result in there being one only consolidation model for all entities controlled. According to the standard, the condition of control is fulfilled if an investor has power over the investee and has the ability to use its power to affect the amount of the investor's returns. The provisions for separate financial statements remain a component of IAS 27 and, unlike other parts of IAS 27, which are replaced by IFRS 10, remain unchanged. Based on the preliminary analyses performed, IFRS 10 is not expected to have any impact on the investments of the Group held as of the end of the reporting period. IFRS 10 becomes effective for the first time for reporting periods beginning on or after 1 January 2014.

IFRS 11 – Joint Arrangements

IFRS 11 was published in May 2011. The standard reforms accounting for joint arrangements. IFRS 11 replaces the existing IAS 31 *Interests in Joint Ventures* and SIC 13 *Jointly-controlled Entities – Non-monetary Contributions by Venturers*. The previous proportionate consolidation option is removed by IFRS 11. Jointly controlled assets are not within the scope of IFRS 11. It only covers joint operations and joint ventures. IFRS 11 is not expected to affect the consolidated financial statements of Zalando GmbH. The standard is applicable for the first time for reporting periods beginning on or after 1 January 2014. The amendment to IFRS 11 is not expected to have any effect on the net assets, financial position and results of operations of the Group.

IFRS 12 – Disclosures of Interests in Other Entities

The standard regulates disclosure requirements for the area of group financial reporting. IFRS 12 combines the disclosures for subsidiaries, previously regulated in IAS 27, the disclosures for jointly controlled entities and associates, previously regulated in IAS 31 and IAS 28, and the disclosures for structured entities. A number of new disclosures are required, but these will have no impact on the Group's reporting. IFRS 12 becomes effective for the first time for reporting periods beginning on or after 1 January 2014.

IAS 28 – Investments in Associates and Joint Ventures

As a consequence of the new IFRS 11 *Joint Arrangements* and IFRS 12 *Disclosure of Interests in Other Entities*, IAS 28 was renamed *Investments in Associates and Joint Ventures*. Its scope of application, which was previously restricted to associates, was extended to include joint ventures. The revised standard becomes effective for reporting periods beginning on or after 1 January 2014. The amendment to IAS 28 is not expected to have any effect on the net assets, financial position and results of operations of the Group.

IFRS 13 – Fair Value Measurement

IFRS 13 takes the rules on fair value measurement previously spread throughout the IFRS standards and combines them in one standard. The standard also introduces additional disclosure requirements for calculating fair value. IFRS 13 does not regulate the situations in which fair value measurement must be performed. After summarily examining the standard, management does not expect first-time adoption of IFRS 13 to have any material impact on the consolidated financial statements of Zalando GmbH. IFRS 13 becomes effective for the first time for reporting periods beginning on or after 1 January 2013.

IAS 32 – Offsetting Financial Assets and Financial Liabilities — Amendments to IAS 32

These amendments clarify the meaning of “currently has a legally enforceable right to set-off”. The amendments also clarify the application of the IAS 32 offsetting criteria to settlement systems (such as central clearing systems) which apply gross settlement mechanisms to business transactions that are not simultaneous. The revised standard becomes effective for reporting periods beginning on or after 1 January 2014. These amendments are not expected to have any effect on the consolidated financial statements.

IAS 1 – Presentation of Items of Other Comprehensive Income – Amendments to IAS 1

The amendments to IAS 1 change the grouping of items presented in other comprehensive income (OCI). Items that could be reclassified (or ‘recycled’) to profit or loss at a future point in time (for example, actuarial gains and losses on defined benefit plans and revaluation of land and buildings) would be presented separately from items that will never be reclassified (for example, net gain on hedge of net investment, exchange differences on translation of foreign operations, net movement on cash flow hedges and net loss or gain on available-for-sale financial assets). These amendments affect presentation only and have no impact on the Group’s net assets, financial position and results of operations. These amendments are effective for reporting periods beginning on or after 1 July 2012. It will be applied by the Group in the first annual reporting after the effective date.

IAS 19 – Employee Benefits (Revised)

The IASB has issued numerous amendments to IAS 19. These range from fundamental changes such as removing the corridor mechanism and the concept of expected returns on plan assets to simple clarifications and re-wording. This amendment is effective for reporting periods beginning on or after 1 January 2013. The standard is not expected to have any effect on the consolidated financial statements of Zalando GmbH.

Improvements to IFRSs

The IASB constantly revises existing standards. In May 2012, the IASB issued another omnibus of amendments to its standards, which incorporates seven improvements to five different standards. The amendments relate to reporting periods beginning on or after 1 January 2013. Based on a preliminary analysis, the Group expects no material impact from the first-time adoption of the amendments on its net assets, financial position and results of operations. The standard has not yet been endorsed by the European Union.

D. Principles of consolidation

Basis of consolidation

The consolidated group comprises twelve (prior year: seven) subsidiaries. These consist of nine German (prior year: five) and three (prior year: two) international subsidiaries. The subsidiaries are included in the consolidated financial statements from the date on which the Group obtained control over the subsidiaries.

Reporting date of the consolidated financial statements

The consolidated financial statements cover the 2012 fiscal year on the basis of the reporting period from 1 January to 31 December of the year 2012. Apart from abbreviated fiscal years due to the establishment of entities, the fiscal year of the consolidated entities also corresponds to the calendar year.

Accounting policies

The 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.

The group entities each prepare their financial statements in the respective functional currency.

All intercompany transactions, balances and profits or losses are fully eliminated in the course of consolidation.

Elimination of intercompany balances

Intercompany receivables and liabilities are offset. Offsetting differences are recognized in profit or loss if they arose in the reporting period.

Consolidation of intercompany profits

The consolidation of intercompany profits involves offsetting intercompany revenue against expenses. Intercompany profits and losses are eliminated.

Foreign currency translation

The consolidated financial statements are presented in euro, which is Zalando GmbH's functional currency and the presentation currency of the Group. The assets and liabilities of subsidiaries whose functional currency is not the euro are translated to euro at the rate of exchange prevailing as of the reporting date. Items of the income statement are translated into the reporting currency at the weighted average exchange rate of the respective year. The equity of the subsidiaries is translated at the corresponding historical rates. The exchange differences arising from the translation of financial statements prepared in foreign currency are recognized as an adjustment item in other comprehensive income.

Transactions in foreign currencies are initially recorded by the group entities at their respective functional currency spot rates prevailing as of the date of the transaction.

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

E. Accounting and measurement principles

Intangible assets

The useful lives of intangible assets are assessed as either finite or indefinite.

Intangible assets with finite lives are amortized over the useful economic life and assessed for impairment whenever there is an indication that the intangible asset may be impaired. 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 in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset are considered to modify the amortization period or method, as appropriate, and are treated as changes in accounting estimates.

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

Intangible assets are measured at amortized cost. All intangible assets except for brand names and domain rights have a finite useful life and are amortized over their useful life of three to eight years on a straight-line basis.

Internally generated intangible assets satisfying the prerequisites of IAS 38 *Intangible Assets* are recognized at development cost. Internally generated intangible assets are recognized if a newly developed product or newly developed software can be unambiguously identified, is technically feasible and is intended for own use or sale. 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 systematically over a useful life of generally three to four years. Amortization of the asset begins when development is complete and the asset is available for use. It is recorded in cost of sales over the period of expected future benefit. Research costs are expensed in the period in which they arise.

The non-current assets' residual values, useful lives and amortization methods are reviewed at each fiscal year end and adjusted prospectively, if appropriate.

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

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. Changes in the residual values or useful lives that arise during the use of assets are taken into consideration when measuring depreciation. Property, plant and equipment are depreciated exclusively on a straight-line basis in accordance with the cost model pursuant to IAS 16. Depreciation is charged on a straight-line basis over the following useful lives.

Useful lives	years
Leasehold improvements	11-17
Plant and machinery	13-15
Furniture, fixtures and office equipment	2-23

An item of property, plant and equipment is derecognized upon disposal or when no future 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 income statement when the asset is derecognized.

The residual values, useful lives and methods of depreciation of property, plant and equipment are reviewed at each fiscal year end 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. There were no indications of impairments of non-financial assets in the 2012 reporting period.

Leases – the Group as the lessee

The determination of whether an arrangement is, or contains, a lease is based on the substance of the arrangement at inception date, whether fulfillment of the arrangement is dependent on the use of a specific asset or assets or the arrangement conveys a right to use the asset, even if that right is not explicitly specified in an arrangement.

A lease is classified as a finance lease if all risks and rewards incidental to ownership are transferred to the lessee. All other leases are classified as operating leases.

Leased assets constituting purchases of assets with long-term financing are classified as finance leases. They are recognized at the inception of the lease at the fair value of the leased asset or, if lower, at the present value of the minimum lease payments. The corresponding liability is recorded as a lease liability in the statement of financial position. There are currently no finance leases in the Zalando Group.

Assets leased under operating leases are not recognized. Instead, the lease payments are expensed on a straight-line basis over the term of the lease. In the Zalando Group, significant leases pertain to rented business premises and logistic properties.

Income taxes

The income tax expense of the period comprises current and deferred taxes. Taxes are recognized in the profit or loss for the period, unless they relate to items recognized directly in equity or in other comprehensive income, in which case the 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 companies operate and generate taxable income effective as of the reporting date.

Management regularly reviews the tax declarations, above all as regards matters open to interpretation, and recognizes provisions based on the amounts that are expected to be payable to the tax authorities.

Current income tax relating to items recognized directly in equity is also recognized directly in equity and not in the profit or loss for the period. Management periodically evaluates tax positions in accordance with applicable tax regulations and establishes provisions where appropriate.

Deferred taxes

Deferred taxes are calculated using the liability method on the basis of IAS 12. Deferred taxes are recognized on the basis of temporary differences between the carrying amounts recognized in the consolidated financial statements and the tax accounts if these differences lead to future tax relief 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 only recognized on temporary differences or unused tax losses if there is reasonable assurance that they will be realized in the near future.

Deferred tax liabilities are recognized for all taxable temporary differences, except:

- When the deferred tax liability arises from the initial recognition of goodwill or an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss
- In respect of taxable temporary differences associated with investments in subsidiaries, where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future

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

- When the deferred tax asset relating to the deductible temporary difference arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit or loss nor taxable profit or loss
- In respect of deductible temporary differences associated with investments in subsidiaries, deferred tax assets are recognized only to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit or loss will be available against which the temporary differences 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 all or part of the deferred tax asset to be utilized. Unrecognized deferred tax assets are reassessed at each reporting date and are recognized to the extent that it has become probable that future taxable profits will allow the deferred tax asset to be recovered.

Deferred tax assets and deferred tax liabilities are offset if a legally enforceable right exists to set off current tax assets against current tax liabilities and the deferred taxes relate to the same taxable entity and the same taxation authority.

Inventories

Merchandise accounted for as inventories is recognized at cost pursuant to IAS 2. Cost is calculated on the basis of item-by-item valuation from the point of view of the procurement market.

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. Sales risks and other risks are taken into consideration in the net realizable value, where appropriate. When the circumstances that previously caused merchandise to be written down below cost no longer exist, the write-down is reversed.

Financial instruments

General

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 the Zalando Group becomes a contractual party to a financial instrument. Financial assets are derecognized when the contractual rights to the cash flows from the financial asset expire or the financial asset is transferred together with all significant risks and rewards. Financial liabilities are derecognized when the contractual commitments have been settled, cancelled, or have expired.

Regular way purchases and sales of financial assets are recognized as of the trading date, i.e., the date on which an asset is delivered.

If there are indications of permanent impairment for financial instruments measured at fair value not through profit or loss, corresponding impairment losses are recognized. If the reasons for impairment no longer apply for loans and receivables and for held-to-maturity investments, the impairment losses are reversed to amortized cost. For all financial instruments, the impairment losses are recognized in separate accounts.

The fair value of a financial instrument is the amount that two independent, willing parties would agree for this instrument. 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, the value of a financial instrument is calculated using financial modeling methods, e.g., by discounting future cash flows with the market interest rate, or by applying generally accepted option pricing models and by means of confirmations by the banks processing the transactions.

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
- any write-downs for impairment or uncollectibility and

- plus or minus the cumulative amortization using the effective interest method over the term of the financial asset or financial liability of any difference between that initial amount and the maturity amount (premium).

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

Financial assets

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

- Loans and receivables
- Financial assets held to maturity
- Financial assets at fair value through profit or loss, or
- Available-for-sale financial assets

When financial assets are recognized initially, they are measured at fair value. 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 different measurement rules for each category.

Loans and receivables are non-derivative financial assets with fixed or determinable payments and that are not quoted on an active market. They are measured at amortized cost. This measurement category is used for trade receivables, other financial assets and cash and short-term deposits.

Non-derivative financial assets with fixed or determinable payments and fixed maturity are classified as *held-to-maturity investments* if the entity intends and is able to hold them to maturity. They are also carried at amortized cost using the effective interest method. The Zalando Group does not currently have any assets that can be allocated to this category.

All financial assets *held for trading* are allocated to the category of *financial assets at fair value through profit or loss.* Financial instruments held for trading are those acquired for the purpose of selling or repurchasing in the near term. Derivative financial instruments that are not effective hedging instruments must also be allocated to this category. The Zalando Group did not use the optional classification to this category. Changes in the fair value of financial assets are recognized in profit or loss as at the date their value increases or decreases.

The category of *available-for-sale financial assets* relates to those non-derivative financial assets that were not allocated to any of the aforementioned categories. Changes in the fair value of *available-for-sale financial assets* are recognized directly in equity. The fluctuations in value recognized in equity are transferred to profit for the period only at the time the assets are disposed of or in the event of their permanent impairment. Equity instruments which do not have a quoted market price in an active market and whose fair value cannot be reliably measured are measured at cost. In the case of permanent impairment, a write-down to the present value of future cash flows is performed.

Impairment of financial assets

As of every reporting date, the Group tests financial assets or groups of financial assets to determine whether there is any indication that they may be impaired. A financial asset or a group of financial assets is deemed to be impaired if, and only if, there is objective evidence of impairment as a result of one or more events that has occurred after the initial recognition of the asset and that loss event has an impact on the estimated future cash flows of the financial asset or the group of financial assets. Impairment losses are recognized in profit or loss.

The impairments of trade receivables are recognized using portfolio-based specific allowances that are calculated with the help of country-specific allowance rates based on how long they are past due.

Receivables together with the associated allowance are written off when there is no realistic prospect of future recovery and all collateral has been realized or has been transferred to the Group. If, in a subsequent year, the amount of the estimated impairment loss increases or decreases because of an event occurring after the impairment was recognized, the previously recognized impairment loss is increased or reduced by adjusting the allowance account. If a write-off is later recovered due to an event that occurred after the write-off, the recovery is recognized in other operating income.

Financial liabilities

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

Financial liabilities fall into one of the two following categories:

- 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 held for trading and other financial liabilities designated upon initial recognition as *at fair value through profit or loss*. These include financial liabilities held for trading, in particular derivative financial instruments that are not designated as hedging instruments. The Zalando Group did not use the optional classification to this category. Gains and losses from the subsequent measurement are recognized in profit or loss.

After initial recognition, trade payables, liabilities to banks 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*.

Offsetting financial instruments

Financial assets and financial liabilities are offset and the net amount reported in the consolidated statement of financial position if, and only if:

- there is a currently enforceable legal right to offset the recognized amounts and
- there is an intention to settle on a net basis, or to realize the assets and settle the liabilities simultaneously.

Derivative financial instruments and hedge accounting

The Zalando Group uses derivative financial instruments such as forward exchange contracts and interest rate swaps 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 reported as financial liabilities in the statement of financial position if their fair value is negative.

Whether or not profits and losses from changes in the fair value of derivative financial instruments are recognized depends on whether the requirements of IAS 39 are met with regard to hedge accounting. Derivative financial instruments that are part of a standard hedge are not allocated to any of the categories presented above.

Any gains or losses arising from changes in fair value on derivatives during the year that do not qualify for hedge accounting are taken directly to the income statement.

Hedge accounting involves classifying derivative financial instruments either as an instrument to hedge the fair value of an underlying (fair value hedge), an instrument to hedge future payment obligations (cash flow hedge) or an instrument to hedge a net investment in a foreign entity.

For forward exchange contracts, the fair value is determined on the basis of the latest official exchange rates issued by the European Central Bank taking account of forward premiums and discounts for the respective remainder of the contract compared with the contractually agreed exchange rate. Interest rate hedges are measured on the basis of discounted future expected cash flows based on the market interest rates that apply for the remainder of the contracts.

As part of its risk management, the Zalando Group formally set out and documented objectives and strategies for mitigating risk. The documentation on hedge accounting also contains the following additional points:

- identification of the hedge
- identification of the hedged item or transaction
- nature of the risk being hedged and
- description of how the effectiveness of the hedge is determined.

Most of the forward exchange contracts are used to hedge trade payables and are concluded in US dollars.

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

As of the end of the reporting period, the Zalando Group did not classify any derivative financial instruments as instruments to hedge a net investment in a foreign entity.

Fair value hedges

A fair value hedge is a hedge of the exposure to changes in fair value of recognized assets or liabilities. Changes in the fair value of derivatives and changes in the hedged item's market value on which the hedged risk is based are recognized simultaneously in profit or loss.

The Zalando Group uses forward exchange contracts to mitigate the risk of fluctuations in the fair value of trade payables denominated in US dollars arising from market value changes.

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 off-balance-sheet obligations exposed to a currency risk.

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 recognized in profit or loss. The gains and losses resulting from hedges initially remain in equity and are later recognized in profit or loss for the period in which the hedged transaction influences the net income or loss for the period

The Zalando Group uses forward exchange contracts as hedging instruments to hedge foreign currency risks resulting from contractual commodity procurement transactions. Accordingly, the amount recognized directly in equity is derecognized via the cost of materials when the corresponding goods are sold.

The Zalando Group also uses payer interest swaps to hedge interest risks from floating-rate bank loans.

Provisions

General

Provisions are recognized in accordance with of 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. Non-current provisions with a term of more than 12 months are discounted to the reporting date.

Provisions for returned goods

The provision for expected returns (returned goods) includes the risk of the contractually permitted return of articles. Provisions for expected returns are recognized when the product is sold. The provision for expected returns recognized as of the end of the reporting period mainly relates to the revenue generated for goods in December for which returns could take place after the end of the reporting period. Using the gross method, a provision is recognized for the average gross profit margin based on the average rate of returns. In addition, the other costs for expected returns are recognized as a liability.

Restoration obligations

The Group recognizes provisions for restoration expenses for leasehold improvements in the leased warehouses. The provision is recognized in an amount equivalent to the present value of the estimated future restoration obligations. The restoration obligations are recognized as part of the cost of the leasehold improvements for the corresponding amount. The estimated cash flows are discounted at a current rate that reflects the risks specific to the restoration expense. The unwinding of the discount is expensed as incurred and recognized in the income statement as a finance cost.

Share-based payments

General

The share-based payment programs in the Zalando Group are accounted for as equity-settled or cash-settled share-based payments.

The equity-settled share-based payments granted to management are recognized on the one hand as expenses and on the other as a contribution to the capital reserves at fair value. Expense recognition and the addition to the capital reserves are performed over the contractually agreed vesting period. The fair value of the options issued is calculated at the grant date.

For cash-settled share-based payment transactions, the employee service and the liability incurred are recognized at the fair value of the liability. The liability is remeasured at fair value as of each reporting date and on the settlement date. The liability is accumulated pro rata over the vesting period.

Equity-settled transactions

The cost of equity-settled transactions is recognized, together with a corresponding increase in the capital reserves in equity, over the period in which the service conditions are fulfilled (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 Group's best estimate of the number of equity instruments that will ultimately vest. The income or expense recognized in the profit for the period corresponds to the development of the cumulative expenses recognized at the beginning and at the end of the reporting period.

No expense is recognized for awards that do not ultimately vest due to a service condition not being fulfilled, except for equity-settled transactions for which vesting is conditional upon a market or non-vesting condition. These are treated as vested irrespective of whether or not the market or non-vesting condition is satisfied, provided that all other service conditions are satisfied.

Where 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.

Where an equity-settled award is cancelled, it is treated as if it had vested on the date of cancellation and any expense not yet recognized for the award is recognized immediately. However, if a new award is substituted for the cancelled award, and designated as a replacement award on the date that it is granted, the cancelled and new awards are treated as if they were a modification of the original award, as described in the previous paragraph. All cancellations of equity-settled transaction arrangements are treated equally (see note (18) for further information).

Cash-settled transactions

The costs resulting from cash-settled transactions are initially measured at fair value as of the grant date. This fair value is expensed over the period until the vesting date with recognition of a corresponding liability. The liability is remeasured at each reporting date and on the grant date, with changes in fair value recognized in profit or loss (see note (18) for further information).

Other long-term employee benefits

Other long-term employee benefits are accounted for in accordance with the provisions of IAS 19. These are employee benefits (other than post-employment benefits and termination benefits) which do not fall due wholly within 12 months after the end of the period in which the employees render the related service.

The value of the liability recognized is calculated according to the projected unit credit method. To this end, the present value of the commitments is determined by discounting the expected cash flow. The present value of the liability recognized is recalculated as of every reporting date. The changes are recognized in profit or loss.

Revenue and expense recognition

Revenue and other operating income are recognized in accordance with the provisions of IAS 18 when the goods or services are delivered provided that it is likely that economic benefits will flow to the Group and the amount can be reliably measured. Revenue is measured at the fair value of the consideration received or receivable, taking into account contractually defined terms of payment and excluding taxes or duty. Revenue is recorded net of sales deductions.

The following specific recognition criteria must also be met before revenue is recognized:

- Upon the sale of merchandise to customers, the date on which the goods are delivered is also the date on which economic title to the merchandise passes to the customer. In this case, the transfer of economic title is not attached to the transfer of legal title.
- If rights of return are agreed when products are sold, revenue is not recognized unless corresponding values based on past experience are available. The expected volume of returns is estimated and recognized as reducing revenue based on past experience.

Operating expenses are recognized in profit or loss when a service is used or when the costs are incurred.

Interest is recognized as an income or expense item in the period to which it relates using the effective interest method.

Government grants

Government grants are recognized where there is reasonable assurance that the grant will be received and all attaching conditions will be complied with. Investment grants are recognized as deferred income and released to income in equal amounts over the expected useful life of the related asset.

When the government grant relates to an expense item, it is recognized as income on a systematic basis over the periods that the costs, which it is intended to compensate, are expensed. Grants received to compensate costs that have already been incurred are recognized in profit or loss and offset against the corresponding expense in the period when the right arises.

F. Use of estimates and assumptions

The preparation of financial statements in accordance with IFRSs requires management to make assumptions and estimates that have effects on the amounts carried and the related disclosures. Although these estimates, to the best of management's knowledge, are based on the current events and measures, there may be deviations between estimated and actual results. Significant estimates and assumptions have been used for the following matters in particular:

- Identification of amortization periods of intangible assets and depreciation periods of property, plant and equipment; see comments under E. Accounting and measurement principles,
- Identification of write-downs of merchandise and receivables; see comments under (13.) and (14.),
- Identification of return rates for the measurement of provisions for expected returned products; see comments under E. Accounting and measurement principles, and
- The determination of the fair value of obligations from financial liabilities and share-based payments; see comments under I. Other notes, *Risks from financial instruments and financial risk management* as well as note (18.).

All estimates and assumptions are based on circumstances and judgments at the reporting date and the expected future development of the Zalando 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.

G. Notes to the consolidated income statement

(1.) Revenue

in EUR k	1 Jan – 31 Dec 2012	1 Jan – 31 Dec 2011
Revenue from the sale of merchandise	1,148,489	507,377
Revenue from other services	10,186	2,566
Total	**1,158,675**	**509,943**

The increase in revenue is attributable on the one hand to the increasing expansion of business in new and established markets. After opening new online shops in Italy, the UK, Austria and Switzerland in 2011, Zalando started 2012 with its own online shops in Sweden, Denmark, Finland, Belgium, Spain, Norway and Poland. On the other hand, the Zalando Group experienced further growth on the established markets.

(2.) Cost of sales

in EUR k	1 Jan – 31 Dec 2012	1 Jan – 31 Dec 2011
Non-personnel costs	597,432	264,352
Personnel costs	15,620	6,321
Total	**613,052**	**270,673**

Cost of sales mainly consists of cost of materials, personnel expenses, third-party services and infrastructure costs.

Cost of materials in the Group totals EUR 589,126k (prior year: EUR 264,696k).

Overall, the Zalando Group recorded a gross profit of EUR 545,623k (prior year: EUR 239,270k).

(3.) Selling and distribution costs

in EUR k	1 Jan - 31 Dec 2012	1 Jan - 31 Dec 2011
Non-personnel costs	467,616	240,976
Personnel costs	59,243	19,245
Total	**526,859**	**260,221**

Due to the development of business, selling and distribution costs rose by EUR 266,638k to EUR 526,859k. They mainly consist of marketing costs as well as freight and logistics costs.

(4.) Administrative expenses

in EUR k	1 Jan – 31 Dec 2012	1 Jan – 31 Dec 2011
Non-personnel costs	37,252	15,727
Personnel costs	45,990	16,898
Total	**83,242**	**32,625**

Administrative expenses primarily contain personnel costs and payment expenses as well as legal and advisory expenses. The payment expenses mainly stem from monetary transactions with suppliers and customers.

(5.) Other operating income

Other operating income chiefly relates to the reversal of the special item for government grants as well as income from the advertising business.

(6.) Other operating expenses

in EUR k	1 Jan – 31 Dec 2012	1 Jan – 31 Dec 2011
Bad debt allowances	24,145	7,166
Other expenses	1,656	740
Total	**25,801**	**7,906**

For information about bad debt allowances, we refer to note (14.).

(7.) Financial result

in EUR k	1 Jan – 31 Dec 2012	1 Jan – 31 Dec 2011
Interest income from cash at banks	1,447	451
Other interest and similar income	**1,447**	**451**
Other interest expenses	-2,405	-1,097
Interest and similar expenses	**-2,405**	**-1,097**
Net interest	**-958**	**-646**

Other interest expenses mainly pertain to interest expenses from the extension of payment terms by means of reverse factoring.

(8.) Income taxes

Income taxes include the current income taxes paid or payable in the respective countries. They comprise trade tax, corporate income tax, solidarity surcharge and the corresponding foreign tax charges. As in the prior year, the statutory corporate income tax rate for the 2012 assessment period in Germany was 15%. This leads to corporate tax rate, including trade tax and solidarity surcharge, of 30.175%.

in EUR k	1 Jan – 31 Dec 2012	1 Jan – 31 Dec 2011
Current taxes in Germany	273	30
Current taxes in other countries	243	123
Total	**516**	**153**

At the end of the reporting period, no deferred tax assets were recognized on unused tax losses pertaining to corporate income tax and trade tax of around EUR 160.9m and EUR 163.5m respectively (prior year: EUR 80.9m and EUR 80.6m respectively). These tax losses are available indefinitely for offset against future taxable profits of the companies in which the losses arose. The unused tax losses do not expire.

Deferred tax assets have not been recognized in respect of these losses, as the probability for recognition of deferred tax assets required by the standard does not exist at present.

The expected income tax expenses can be reconciled as follows to the theoretical income tax expense which would have resulted if the tax rate of the ultimate parent, Zalando GmbH, of 30.175% had been applied to the Group’s earnings before income taxes for the year under IFRSs:

in EUR k	1 Jan – 31 Dec 2012	1 Jan – 31 Dec 2011
Earnings before taxes	-84,554	-59,589
Income tax rate for the Group (Germany including trade tax)	30.175%	30.175%
Expected tax expense/income (income +, expense -)	25,514	17,981
Unrecognized deferred tax assets	-25,461	-17,959
Tax rate differences	-125	3
Non-tax-deductible operating expenses	-11	-86
Addbacks and reductions for trade tax purposes	-24	-106
Other	-409	14
Income tax expense according to the income statement	**-516**	**-153**
Effective tax rate	0.61%	0.26%

(9.) Personnel expenses

in EUR k	1 Jan – 31 Dec 2012	1 Jan – 31 Dec 2011
Wages and salaries	102,382	35,697
Social security, pension and other benefit costs	18,471	6,768
- thereof pension costs	196	136
Total	**120,853**	**42,465**

In the 2012 reporting period, 4,100 persons on average were employed in the Group (prior year: 1,624). In the prior year, a figure of EUR 5,393k was reclassified from social security costs to wages and salaries. Because of the increased headcount, the contributions to statutory pension insurance increased almost three-fold to EUR 7,951k.

H. Notes to the consolidated statement of financial position

(10.) Intangible assets

For the development of intangible assets, we refer to the consolidated statement of changes in non-current assets below. Of the additions recognized in the reporting period, an amount of EUR 3,050k (prior year: EUR 1,856k) relates to capitalized development costs.

An immaterial amount of research expenses relating to software development were incurred.

There were no intangible assets with indefinite useful lives, apart from the brand names and domain rights recognized of EUR 602k (prior year: EUR 130k).

Amortization of EUR 3,441k (prior year: EUR 737k) was recorded in the reporting period. Of this figure, EUR 215k (prior year: EUR 57k) is recognized in cost of sales, EUR 1,431k (prior year: EUR 391k) in selling and distribution costs and EUR 1,795k (prior year: EUR 289k) in administrative expenses.

The following table shows the changes in intangible assets in the 2012 reporting period:

in EUR k	Capitalized development costs	Industrial rights, similar rights and assets as well as licenses	Advance payments	Total
Historical cost				
As of 1 January 2012	2,423	2,356	0	**4,779**
Additions	3,050	5,653	837	**9,540**
As of 31 December 2012	5,473	8,009	837	**14,319**
Amortization and impairments				
As of 1 January 2012	355	576	0	**931**
Additions	1,349	2,092	0	**3,441**
As of 31 December 2012	1,704	2,668	0	**4,372**
Net carrying amounts				
As of 31 December 2011	2,068	1,780	0	**3,848**
As of 31 December 2012	3,769	5,341	837	**9,947**

The following table shows the change in intangible assets in the 2011 comparative period:

in EUR k	Capitalized development costs	Industrial rights, similar rights and assets as well as licenses	Advance payments	Total
Historical cost				
As of 1 January 2011	567	874	0	**1,441**
Additions	1,856	1,482	0	**3,338**
As of 31 December 2011	2,423	2,356	0	**4,779**
Amortization and impairments				
As of 1 January 2011	63	131	0	**194**
Additions	292	445	0	**737**
As of 31 December 2011	355	576	0	**931**
Net carrying amounts				
As of 31 December 2010	504	743	0	**1,247**
As of 31 December 2011	2,068	1,780	0	**3,848**

(11.) Property, plant and equipment

For the development of property, plant and equipment, we refer to the consolidated statement of changes in non-current assets below. The additions mainly pertain to furniture and fixtures as well as investments in expanding the logistics centers.

Of the depreciation of property, plant and equipment totaling EUR 3,247k (prior year: EUR 1,055k), an amount of EUR 741k (prior year: EUR 177k) is recognized in cost of sales, EUR 1,458k (prior year: EUR 391k) in selling and distribution costs and EUR 1,048k (prior year: EUR 487k) in administrative expenses.

The following table shows the change in property, plant and equipment in the 2012 reporting period:

in EUR k	Plant and machinery	Other equipment, furniture and fixtures	Advance payments	Total
Historical cost				
As of 1 January 2012	1,016	9,666	5,142	**15,824**
Additions	784	15,952	17,152	**33,888**
Disposals	0	-172	0	**-172**
Reclassifications	-248	4,975	-4,727	**0**
As of 31 December 2012	1,552	30,421	17,567	**49,540**
Depreciation and impairments				
As of 1 January 2012	29	1,253	0	**1,282**
Additions	90	3,157	0	**3,247**
Disposals	0	-161	0	**-161**
Reclassifications	-4	4	0	**0**
As of 31 December 2012	115	4,253	0	**4,368**
Net carrying amounts				
As of 31 December 2011	987	8,413	5,142	**14,542**
As of 31 December 2012	1,437	26,168	17,567	**45,172**

The following table shows the change in property, plant and equipment in the 2011 comparative period:

in EUR k	Plant and machinery	Other equipment, furniture and fixtures	Assets under construction	Advance payments	Total
Historical cost					
As of 1 January 2011	0	1,159	0	0	**1,159**
Additions	204	4,319	948	9,198	**14,669**
Disposals	0	-4	0	0	**-4**
Reclassifications	812	4,192	-948	-4,056	**0**
As of 31 December 2011	1,016	9,666	0	5,142	**15,824**
Depreciation and impairments					
As of 1 January 2011	0	227	0	0	**227**
Additions	29	1,026	0	0	**1,055**
As of 31 December 2011	29	1,253	0	0	**1,282**
Net carrying amounts					
As of 31 December 2010	0	932	0	0	**932**
As of 31 December 2011	987	8,413	0	5,142	**14,542**

(12.) Other non-current financial assets

Other financial assets mainly contain deposits from existing rent agreements of the Zalando Group of EUR 502k (prior year: EUR 302k) as well as non-current restricted cash of EUR 31,061k (prior year: EUR 6,320k).

(13.) Inventories and advance payments

Inventories of merchandise, mainly consisting of the shoes and textiles product groups, are recognized in the amount of EUR 228,723k (prior year: EUR 108,120k).

Write-downs of EUR 22,549k (prior year: EUR 4,517k) were recognized on inventories of EUR 98,188k (prior year: EUR 8,005k). The increase in inventories by EUR 120,603k to EUR 228,723k results from the increased business volume and the associated need for more extensive warehouse stocks of shoes, clothing and other articles.

Advance payments pertain to prepayments on merchandise.

(14.) Trade receivables

Trade receivables are mainly due from customers of Zalando GmbH. The entire portfolio of receivables was reduced by valuation allowances and impairments in the 2012 reporting period due to the uncollectibility of the receivables.

Bad debt allowances of EUR 24,145k (prior year: EUR 7,166k) were expensed in the 2012 reporting period. A portfolio-based specific allowance was thus recognized for a cumulative amount of EUR 34,514k (prior year: EUR 10,369k) of receivables. Overall, write-downs on trade receivables developed as follows:

in EUR k	**2012**	**2011**
Accumulated write-downs as of 1 January	**10,369**	**3,203**
Expenses in the reporting period	24,145	7,166
Accumulated write-downs as of 31 December	**34,514**	**10,369**

The additions to write-downs on trade receivables are reported under other operating expenses (see note 6). The receivables are due immediately and do not bear interest. They are therefore not subject to interest rate risk.

The write-downs due to uncollectible receivables amount to EUR 834k in the reporting period (prior year: EUR 337k). These write-downs are included under other operating expenses (see note 6).

As of 31 December, the ageing analysis of trade receivables after write-downs due to uncollectibility but before valuation adjustments is as follows:

in EUR k	Not past due	Past due by 1 to 18 days	Past due by 19 to 53 days	Past due by 54 to 163 days	Past due by more than 163 days
31 December 2012	54,370	33,583	13,117	15,149	23,772
31 December 2011	26,716	6,193	2,254	8,584	0

In the Zalando Group, both the past due receivables and the receivables that are not past due are subject to a portfolio-based specific allowance in accordance with their age and depending on the country in which they originate.

(15.) Other financial assets and other non-financial assets

Other financial assets chiefly comprise receivables from credit card companies and from creditors with debit balances.

Other non-financial assets result mostly from tax refund entitlements.

(16.) Cash and cash equivalents

Cash and cash equivalents exclusively comprise cash at banks and cash on hand of EUR 382,307k (prior year: EUR 101,829k).

(17.) Equity

The *issued capital* of the parent company was increased by a total of EUR 17,473 to EUR 110,721 in the 2012 reporting period and has been paid in in full. The nominal value per share in the limited liability company is EUR 1.

The *capital reserves* mainly contain contributions by the shareholders. An additional contribution of EUR 431,784k was made in the 2012 reporting period. In addition, the amounts from share-based payments in accordance with the provisions of IFRS 2 are recognized in the capital reserves.

The *accumulated loss* results from the unused tax losses from the prior reporting periods and from the net loss for the 2012 reporting period.

For the development of equity, we refer to the separate consolidated statement of changes in equity. The shareholder contributions of EUR 840k presented in the statement of changes in shareholders' equity stem from the redemption of employee put options by shareholders.

(18.) Share-based payments

The share-based payment awards issued by Zalando are primarily designed as equity-settled plans and to a limited extent as cash-settled plans.

Equity-settled plans

Zalando has granted management options that entitle the beneficiaries to acquire shares in the Company after a certain period of service. The beneficiaries can earn the total number of options granted in sub-tranches. The options vest if the beneficiary is employed at Zalando over the vesting period of the respective sub-tranche. The options are forfeited if the beneficiary leaves the Group before the end of the vesting period. The managers have no claim to cash payment. The share-based payment arrangements issued are accounted for as equity-settled share-based payments in accordance with the provisions of IFRS 2.

The agreements concluded vary as regards the total number of options promised, the exercise prices agreed, the number of sub-tranches that comprise a payment award and the length of the vesting period.

The payment awards granted by Zalando were entered into at various dates. The payment agreements active in the reporting period are based on at least three sub-tranches in each case. The exercise price is EUR 1, general corresponding to the nominal value of one share. The options issued by the Company can be exercised immediately after the vesting date. The number of outstanding options developed as follows in the reporting period:

	Number	Weighted average exercise price (EUR)
Outstanding options as of 1 January 2011	**2,046**	**1**
Options granted during the reporting period	1,847	**9,438**
Options forfeited during the reporting period	44	**1**
Options exercised during the reporting period	173	**1**
Options expired during the reporting period	0	**0**
Outstanding options as of 31 December 2011	**3,676**	**4,743**
Options vested as of 31 December 2011	**1,349**	**1**
Outstanding options as of 1 January 2012	**3,676**	**4,743**
Options granted during the reporting period	269	1
Options forfeited during the reporting period	107	1
Options exercised during the reporting period	314	1
Options expired during the reporting period	0	0
Outstanding options as of 31 December 2012	**3,524**	**4,947**
Options vested as of 31 December 2012	**1,993**	**2,863**

The weighted average share value on the date of exercise of all options exercise in the reporting period amounts to EUR 20,439 (prior year: EUR 9,101).

The outstanding options as of the reporting date are based on exercise prices in a range from EUR 1 to EUR 10,565 (prior year: also EUR 1 to EUR 10,565). Of this figure, 1,874 options (prior year: 2,026) have an exercise price of EUR 1 and 1,650 (prior year: also 1,650) have an exercise price of EUR 10,565. The beneficiaries can exercise vested options for an unlimited period.

The weighted average fair value of a new option granted during the 2012 reporting period was EUR 20,438 (prior year: EUR 4,763). The fair value of the options consists of an intrinsic value and the fair value. The fair value was calculated using the Black-Scholes option price model. For options where the exercise price corresponds to the nominal value of a share of EUR 1, the fair value of the options is negligibly low due to the lower exercise price compared to the fair value of a share.

The input parameters included in the calculation of the newly granted options are summarized in the following table:

	2012	2011
Weighted average share price (EUR)	20,439	10,584
Weighted average exercise price (EUR)	1	9,438
Expected volatility (%)	n/a	43.0%
Expected life of option (years)	n/a	5 years
Expected dividends (%)	0.0%	0.0%
Risk-free interest rate for equivalent maturities (%)	n/a	1.1%
Expected employee turnover (%)	20.0%	20.0%

The expected volatility used in the model is based on the past figures of comparable publicly listed companies. The risk-free interest rate for equivalent maturities was calculated using the Svensson method. The share price used in the valuation model was determined based on the transaction.

Cash-settled share-based payment awards

As of the reporting date, share-based payment arrangements exist that must be settled in cash – if payment will actually be made. Such share-based payment arrangements are accounted for as cash-settled share-based payments in accordance with the provisions of IFRS 2.

The outstanding cash-settled share-based payment awards at the reporting date firstly include plans that enable the beneficiaries to acquire shares in the Company at a fixed price (put options). These put options have a fair value of approximately zero as of the reporting date.

Secondly there are plans that depend on the occurrence of certain future events. They are immaterial for the net assets, financial position and results of operations of the Zalando Group.

As a third component, the outstanding cash-settled share-based payment awards at the reporting date include a phantom stock option program. These options can only have a positive fair value in the event of a sharp decrease in the Company's value. The phantom stock option program is also immaterial for the net assets, financial position and results of operations of the Zalando Group.

Options granted to employees can only be exercised if the beneficiaries are employed in the company over the entire period in which the sub-tranche vests.

As of the end of the reporting period, Zalando recognized a liability totaling EUR 2,799k for cash-settled share-based payment transactions (prior year: EUR 174k).

Total expenses recognized for share-based payment awards

The expenses recognized for share-based payment awards in the 2012 and 2011 reporting periods break down as follows:

in EUR k	2012	2011
Equity-settled	6,473	2,141
Cash-settled	1,059	-3
Total expenses recognized	**7,532**	**2,138**

(19.) Provisions

Provisions developed as follows in the 2012 reporting period:

in EUR k	1 Jan 2012	Utilization	Addition	Other changes	31 Dec 2012
Provisions for returned goods	9,936	9,936	35,323	0	35,323
Restoration obligations	549	0	1,612	64	2,225
Other provisions	4	0	5	0	9
Total	**10,489**	**9,936**	**36,940**	**64**	**37,557**

For reasons of clarity, the provisions for outstanding invoices reported under provisions in the prior year were this year reported under trade payables. The prior-year figures were adjusted accordingly by increasing the trade payables by EUR 30,050k and reducing the provisions by the same amount.

Also for reasons of clarity, the personnel provisions reported in provisions in the prior year were this year reported under other financial and other non-financial liabilities. The prior-year figures were adjusted accordingly by increasing the other financial liabilities by EUR 1,400k and the other non-financial liabilities by EUR 1,292k and reducing the provisions by the same amount.

Provisions were also set up for restoration obligations. These pertain exclusively to leasehold improvements.

The provision for expected returns covers the risk of the contractually permitted return of articles by the customer.

The following table shows the maturities of the provisions in the 2012 reporting period:

in EUR k	Due in less than 1 year	Due in 1 to 5 years	Due in more than 5 years	Total
Provisions for returned goods	35,323	0	0	35,323
Restoration obligations	0	0	2,225	2,225
Other provisions	0	0	9	9
Total	**35,323**	**0**	**2,234**	**37,557**

(20.) Government grants

The grants mainly result from investment subsidies for property, plant and equipment.

(21.) Trade payables and advance payments received

Trade payables increased from EUR 135,045k to EUR 294,624k in line with the expansion of the operating business. There were no significant liabilities denominated in foreign currency as of the reporting date.

Advance payments received pertain to prepayments received from customers for orders.

(22.) Other non-financial liabilities, other financial liabilities and income tax liabilities

Liabilities from the sale of gift certificates are recognized at the value of the anticipated utilization.

The other non-financial liabilities mainly result from liabilities relating to gift vouchers as well as obligations to employees and liabilities relating to VAT.

Other financial liabilities mainly include obligations to employees as well as debtors with credit balances.

The income tax liabilities pertain to provisions for trade and corporate income taxes.

(23.) Notes to the statement of cash flows

The statement of cash flows was prepared in accordance with IAS 7 *Statement of Cash Flows* and shows how the Group's cash and cash equivalents have changed over the reporting period as a result of cash received and paid.

In accordance with IAS 7, the cash flows from operating, investing and financing activities are divided according to their source and utilization. The cash inflows and outflows from operating activities are calculated indirectly on the basis of earnings before interest and taxes (EBIT). Cash inflows and outflows from investing and financing activities are calculated directly. Cash and cash equivalents include unrestricted cash on hand and cash at banks.

The negative cash flow from operating activities results from the net loss for the period adjusted for non-cash effects. The growth of the Zalando Group is reflected both in a significantly higher level of inventories of goods as well as trade receivable and trade payables.

In the prior year, the change in non-current restricted cash and cash equivalents of EUR 6,320k was reclassified from cash flow from operating activities to cash flow from investing activities.

The negative cash flow from investing activities mainly results from investments in the logistics infrastructure. In this regard, investments were made especially in the logistics center in Erfurt that opened in the summer of 2012. In addition, there were capital expenditures on software and furniture and fixtures.

The cash flow from financing activities exclusively comprises payments made by shareholders into the equity of Zalando GmbH which were used to prefinance the planned growth and further enhance the net asset value of the Group.

On the whole, unrestricted cash and cash equivalents rose by EUR 280,478k to EUR 382,307k in a year-on-year comparison.

(24.) Financial liabilities

The following table presents the contractually agreed (undiscounted) interest and principal payments for financial liabilities:

			Due in		
in EUR k		**Total**	**less than 1 year**	**1 to 5 years**	**more than 5 years**
Financial liabilities	31 Dec 2012	14,343	3,243	11,100	0
	31 Dec 2011	0	0	0	0
Trade payables	31 Dec 2012	294,624	294,624	0	0
	31 Dec 2011	135,045	135,045	0	0
Other financial liabilities	31 Dec 2012	9,034	7,192	1,842	0
	31 Dec 2011	5,481	4,631	850	0
Total	**31 Dec 2012**	**318,001**	**305,059**	**12,942**	**0**
	31 Dec 2011	**140,526**	**139,676**	**850**	**0**

(25.) Deferred taxes

Deferred taxes are created for differences between the IFRS carrying amount and the tax base. They would be attributable to the following items in the statement of financial position:

	Deferred tax assets		Deferred tax liabilities		Net balance	
in EUR k	**2012**	**2011**	**2012**	**2011**	**2012**	**2011**
Intangible assets	7	0	-1,386	-624	-1,379	-624
Property, plant and equipment	0	0	-299	-54	-299	-54
Inventories	0	0	-298	-265	-298	-265
Receivables and other assets	0	0	-88	0	-88	0
Other comprehensive income	152	0	-2	0	150	0
Other provisions	829	305	0	0	829	305
Liabilities	10	0	0	0	10	0
Special item	44	69	0	0	44	69
Unused tax losses	48,841	17,488	0	0	48,841	17,488
Tax assets/liabilities (-)	**49,883**	**17,862**	**-2,073**	**-943**	**47,810**	**16,919**

Deferred tax assets are recognized in the amount of the deferred tax liabilities.

The net balance of deferred tax assets is not recognized in the 2012 or 2011 reporting period, as the likelihood required by the standard for the recognition of deferred tax assets does not currently exist.

(26.) Financial instruments

Carrying amounts and fair values of the financial instruments

in EUR k	Category* pursuant to IAS 39	Carrying amount as of 31 Dec 2012	Fair value as of 31 Dec 2012	Carrying amount as of 31 Dec 2011	Fair value as of 31 Dec 2011
Non-current financial assets					
Investments	AfS	-	-	120	-
Other financial assets	LaR	31,684	31,684	6,630	6,630
Current financial assets					
Trade receivables	LaR	105,477	105,477	33,378	33,378
Other financial assets	LaR	14,367	14,367	784	784
Derivative financial instruments designated as hedging instruments	n.a.	7	7	-	-
Derivative financial instruments not designated as hedging instruments	FAHfT	40	40	-	-
Cash and cash equivalents	LaR	382,307	382,307	101,829	101,829
Non-current financial liabilities					
Financial liabilities	FLAC	11,100	11,100	-	-
Other financial liabilities	FLAC	1,821	1,821	850	850
Derivative financial instruments designated as hedging instruments	n.a.	302	302	-	-
Derivative financial instruments not designated as hedging instruments	FLHfT	21	21	-	-
Current financial liabilities					
Financial liabilities	FLAC	3,243	3,243	-	-
Trade payables	FLAC	294,624	294,624	135,045	135,045
Other financial liabilities	FLAC	7,166	7,166	4,631	4,631
Derivative financial instruments designated as hedging instruments	n.a.	289	289	-	-
Derivative financial instruments not designated as hedging instruments	FLHfT	26	26	-	-

*
LaR - Loans and Receivables
FLAC - Financial Liabilities measured at Amortized Cost
AfS - Available for Sale
FAHfT - Financial Assets Held for Trading
FLHfT - Financial Liabilities Held for Trading
n.a. – not allocated to any category

The Zalando Group held forward exchange contracts in US dollars as well as interest swaps in euros as of the reporting date.

The nominal and market values of the derivative financial instruments are as follows as of the end of the reporting period:

		Market value			Nominal amount	Market value
	Nominal amount	Assets	Liabilities	Total		
in EUR k	**31 Dec 2012**	**31 Dec 2012**	**31 Dec 2012**	**31 Dec 2012**	**31 Dec 2011**	**31 Dec 2011**
Forward exchange contracts designated as hedging instruments	**13,483**	**7**	**289**	**-282**	0	0
thereof US dollars	13,483	7	289	-282	0	0
Interest rate swaps designated as hedging instruments	**10,863**	**0**	**302**	**-302**	0	0
Forward exchange contracts held for trading	**4,311**	**40**	**26**	**14**	0	0
thereof US dollars	4,311	40	26	14	0	0
Interest rate swaps not designated as hedging instruments	**6,619**	**0**	**21**	**-21**	0	0
Total	**35,276**	**47**	**638**	**-591**	**0**	**0**

The nominal amounts correspond to the sum of all the 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 value from the underlyings.

The market values of the interest swaps are reported in the statement of financial position under other non-current financial liabilities.

The market values of the forward exchange contracts are reported in the statement of financial position under other current financial assets or other current financial liabilities.

In addition to the forward exchange contracts that are designated as cash flow hedges, the Zalando Group also held forward exchange contracts for trading as of the end of the reporting period. These do not meet the strict requirements for hedge accounting in IAS 39, but contribute effectively to mitigating the financial risk in terms of risk management. The gains and losses from these forward exchange contracts are recognized in profit or loss.

In the event that all contractual partners fail to meet their obligations from the forward exchange contracts, the credit risk for the Zalando Group amounts to EUR 47k as of the end of the reporting period (prior year: EUR 0k).

Amortizing interest rate swaps with an original nominal volume of EUR 17,482k were concluded in the reporting period that have a remaining term of up to nine years. The interest rate swaps secure the Zalando Group against interest fluctuation risks from floating-rate loans. The loans were taken out to finance the furniture and fixtures for the logistics center in Erfurt. The interest rate swaps were designated as a cash flow hedge. Ineffectivities identified in this designation were recognized in other expenses in the income statement.

The forward exchange contracts in place as of the end of the reporting period have a remaining term of up to one year.

In the reporting period, expenses from fair value measurement of financial instruments designated as a cash flow hedge of EUR 499k (prior year: EUR 0k) were offset against equity.

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.

Presentation of net gains/losses from financial instruments

in EUR k	from interest	from fair value measurement	Impairment losses/currency translation/losses on disposals	Total 2012
Loans and receivables	1,423	0	-24,979	-23,556
Assets in the categories:				
available for sale	0	0	-120	-120
held for trading	0	40	0	40
Liabilities in the categories:				
measured at amortized cost	-1,803	0	17	-1,786
held for trading	9	-47	0	-38
Total	**-371**	**-7**	**-25,082**	**-25,460**

	from interest	from fair value measurement	Impairment losses/currency translation/losses on disposals	Total 2011
Loans and receivables	451	0	-7,166	-6,715
Assets in the categories:				
available for sale	0	0	0	0
held for trading	0	0	0	0
Liabilities in the categories:				
measured at amortized cost	-933	0	0	-933
held for trading	0	0	0	0
Total	**-482**	**0**	**-7,166**	**-7,649**

Fair value hierarchy

As of 31 December 2012, the Group held the financial assets and liabilities presented in the following table, measured at fair value.

These financial instruments are classified in a fair value hierarchy with three levels. These levels reflect the market proximity of the data included in determining the fair values:

- Level 1: quoted (unadjusted) prices in active markets for identical assets or liabilities
- Level 2: inputs other than quoted prices included within level 1 that are observable for the asset or liability either directly (as prices) or indirectly derived from prices)
- Level 3: inputs used that are not based on observable market data for the measurement of the asset or liability (non-observable inputs).

	31 Dec 2012			31 Dec 2011
in EUR k	**Level 1**	**Level 2**	**Level 3**	
Financial assets measured at fair value				
Other financial assets (not through profit or loss)	0	0	0	0
Derivative financial instruments with hedge relationship (not through profit or loss)	0	7	0	0
Derivative financial instruments without hedge relationship (through profit or loss)	0	40	0	0
Financial assets measured at fair value				
Other financial liabilities	0	0	0	0
Derivative financial instruments with hedge relationship (not through profit or loss)	0	591	0	0
Derivative financial instruments without hedge relationship (through profit or loss)	0	47	0	0

I. Other notes

Risks relating to financial instruments and financial risk management

As a company with international operations, the Zalando Group is exposed to credit risks, liquidity risks and market risks (currency and interest rate risks) in the course of its ordinary activities. 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 Zalando Group solely for the purpose of risk management. The Zalando Group would be exposed to higher financial risks if it did not use these instruments. The Zalando 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 underlyings, as derivates and underlyings form a unit in terms of their opposing developments in value.

Market risk

Market risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risks include interest rate, currency and other price risks.

The currency risk can be broken down into two further types of risk – the transaction risk and the translation risk. The translation risk describes the risk of changes in the items in the statement of financial position and income statement of a subsidiary due to exchange rate changes when translating the local separate 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. The Zalando Group is currently only exposed to such a risk for one subsidiary. Due to the size of that company, the risk is very low. As a result, this risk is not hedged.

The transaction risk relates to the fact that exchange rate fluctuations can lead to changes in value of future foreign currency payments. The Zalando Group makes purchases in foreign currencies on a daily basis. Forward exchange contracts are used to hedge these activities. Derivative financial instruments are concluded and processed in accordance with internal guidelines that set out binding rules for the scope of action, the responsibilities and the reporting and controls.

The foreign currency sensitivity of the Zalando Group is calculated by aggregating all foreign currency items that are not presented in the functional currency of the respective entity. These items are then compared with the aggregated hedges. The market values of the underlyings and hedges included are measured at actual exchange rates and sensitivity rates. The difference between these measurements represents the effects on earnings and equity. In the prior year, no sensitivity analysis was performed for reasons of immateriality.

If the euro had been 5% stronger in relation to the foreign currencies as of 31 December 2012, earnings before taxes would have been EUR 1,553k lower. If the euro had been 5% weaker compared with the exchange rate as of 31 December 2012, earnings before taxes would have been EUR 1,776k higher.

The reserve for derivatives in the equity of the Zalando Group would have been EUR 614k lower if the euro had been 5% stronger compared with the exchange rate as of 31 December 2012. If the euro had been 5% weaker, this reserve would have been EUR 679k higher.

The interest rate risk involves the influence of positive or negative changes in interest on the earnings, equity or cash flow for the current or future reporting period. Interest rate risks from financial instruments in the Zalando Group are mainly related to financial liabilities. These risks are reduced by entering into interest rate swaps.

The interest rate risk for the floating-rate financial instruments is measured using cash flow sensitivity. Based on the hypothetical interest expense of the floating-rate financial instruments in the portfolio as of the end of the reporting period, the interest income/expenses from the existing interest rate hedges are deducted. If the interest level were 100 base points higher for the portfolio as of the end of the reporting period, interest expenses would be EUR 79k higher.

To calculate the interest rate sensitivity for the reserve recorded in equity for interest derivatives, the yield curve is increased by 100 base points, which would increase this reserve by EUR 679k. It should be taken into account here that some interest rate hedges are included in the valuation as of the end of the reporting period that will not have an effect on the interest result until 2013 onwards.

In light of the current level, no presentation of a downward movement in the yield curve was presented. This is because a fall of 100 base points would lead to negative interest in relation to the base interest rate.

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. The maximum credit risk is equivalent to the carrying amounts of these assets.

Credit risks in the Zalando Group primarily concern trade receivables. The credit risk for trade receivables is taken into consideration by means of a specific bad debt allowance based on the maturity profile. In addition, there is a portfolio-based specific bad debt allowance based on past experience for the receivables not covered by specific bad debt allowances. Uncollectible receivables are written off in full individually.

There is no significant concentration of credit risk. The portfolio of receivables was reduced by valuation adjustments and impairments in the 2012 reporting period due to uncollectibility (see note 14).

In addition, there is a credit risk for cash and cash equivalents 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. This credit risk is limited by holding deposits at different banks with good credit standing.

The maximum credit risk for all classes of financial assets is the sum of all the respective carrying amounts.

Liquidity risk

Liquidity risk is the risk that the Zalando Group will not be in a position to settle its financial liabilities when they fall due. For this reason, the main objective of liquidity management is to ensure the Group's ability to pay at all times. This risk is mitigated by ongoing planning of liquidity requirements and by monitoring liquidity. The Zalando Group controls its liquidity by maintaining sufficient cash and cash equivalents and lines of credit at banks in addition to cash inflows from operating activities.

To reduce the liquidity risk further, reverse factoring agreements have been entered into with various suppliers and with two factoring companies. Under these agreements, the factor purchases the respective supplier receivables due from the Zalando Group. These items are presented under trade payables in the statement of financial position of the Zalando Group.

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 31 December 2012 and

31 December 2011 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 31 December 2012 and 31 December 2011 respectively. All on-call financial liabilities are always allocated to the earliest possible date.

	Carrying amount	Cash flows 2013		Cash flows 2014 to 2017		Cash flows 2018 ff	
in EUR k	**31 Dec 2012**	**Interest**	**Repayments**	**Interest**	**Repayments**	**Interest**	**Repayments**
Financial liabilities	14,343	486	3,243	842	11,100	0	0
Trade payables	294,624	0	294,624	0	0	0	0
Other financial liabilities	9,008	0	7,166	0	1,842	0	0
Subtotal	**317,975**	**486**	**305,033**	**842**	**12,942**	**0**	**0**
Liabilities from derivatives	638	0	433	0	205	0	0
Total	**318,613**	**486**	**305,466**	**842**	**13,147**	**0**	**0**

	Carrying amount	Cash flows 2012		Cash flows 2013 to 2016		Cash flows 2017 ff	
in EUR k	**31 Dec 2011**	**Interest**	**Repayments**	**Interest**	**Repayments**	**Interest**	**Repayments**
Financial liabilities	0	0	0	0	0	0	0
Trade payables	135,045	0	135,045	0	0	0	0
Other financial liabilities	5,481	0	4,631	0	850	0	0
Subtotal	**140,526**	**0**	**139,676**	**0**	**850**	**0**	**0**
Liabilities from derivatives	0	0	0	0	0	0	0
Total	**140,526**	**0**	**139,676**	**0**	**850**	**0**	**0**

Capital management

The objectives of the Zalando Group's capital management are to increase the business value in the long term, to ensure solvency in the short term and to secure the capital basis required to continuously finance its growth plans. It is ensured that all group entities can operate on a going concern basis. Capital management is constantly monitored on the basis of different financial ratios. The equity ratio amounts to 54.7% as of the end of the reporting period (prior year: 38.5%).

Collateral

The Zalando Group pledged financial assets as collateral for contingent liabilities in the amount of EUR 30,626k in the reporting period (prior year: EUR 6,320k). They mainly relate to collateral in connection with lease agreements.

Related party disclosures

For the Zalando Group, related parties include entities and individuals that control Zalando or exercise a significant influence over the Group or which the Zalando Group controls or significantly influences.

In the 2012 and 2011 reporting periods, the Zalando Group had the following business dealings with related parties based on trade relationships agreed in the past: liabilities to related parties amounted to EUR 0k as of the reporting date (prior year: EUR 15k). In the 2012 reporting period, the cost of services received total EUR 1,162k (prior year: EUR 980k). They result from consulting and other service agreements with Rocket Internet GmbH, Berlin, as well as with the other shareholders.

Corporate boards

General managers	Profession
Robert Gentz	General manager
David Schneider	General manager
Frank Biedka (until 31 July 2012)	General manager
Rubin Ritter	General manager

The members of management who hold key positions in the Zalando Group received payments totaling EUR 4,439k in the 2012 reporting period (prior year: EUR 951k). Of this amount, EUR 3,848k is attributable to share-based payment awards in 2012 (prior year: EUR 517k). The expenses are calculated using graded vesting, which means that the expense recorded gradually becomes smaller over the course of the vesting period. All other remuneration is classified as short-term benefits.

No new options were granted to management in the 2012 reporting period (prior year: 1,650). The options granted in the prior year had a fair value of EUR 6,943k as of the grant date. 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 reporting period. The share-based payment awards granted to key management personnel are included in the plans explained in note (18.) of the notes to the consolidated financial statements.

Operating leases

The Group has obligations from operating leases for real estate, furniture and fixtures and for motor vehicles. The contracts have remaining terms of between one and eleven years. Some contain renewal and purchase options and escalation clauses, which do not, however, affect the classification of the leases as operating leases.

The expenses recognized in the reporting period from operating leases came to EUR 7,577k (prior year: EUR 7,011k).

Future minimum lease payments under non-cancellable operating leases are shown in the following table:

in EUR k	less than 1 year	1 to 5 years	more than 5 years	Total
2012	13,034	19,057	24,791	56,882
2011	6,767	5,216	142	12,125

Auditor’s fees

The fees recognized as expenses for the auditor, Ernst & Young GmbH Wirtschaftsprüfungsgesellschaft, Berlin, amount to

- EUR 377k (prior year: EUR 195k) for the audit (separate and consolidated financial statements)
- EUR 0k (prior year: EUR 8k) for tax advisory services and
- EUR 134k (prior year: EUR 46k) for other services.

List of shareholdings

As of 31 December 2012, the shareholdings held by Zalando GmbH can be summarized as follows:

		2012	2011
		Share in capital	Share in capital
1.	zLabels GmbH, Berlin	100%	100%
2.	MyBrands Zalando Verwaltungs GmbH, Berlin	100%	100%
3.	Zalando S.A.S., Paris, France	100%	100%
4.	Zalando Ltd., London, UK	100%	100%
5.	MyBrands GmbH, Berlin	100%	100%
6.	MyBrands Zalando eLogistics GmbH & Co. KG, Brieselang	100%	100%
7.	MyBrands Zalando eServices GmbH & Co. KG, Berlin	100%	100%
8.	MyBrands Zalando eProduction GmbH & Co. KG, Berlin	100%	100%
9.	MyBrands Zalando eStudios GmbH & Co. KG, Erfurt	100%	-
10.	Zalando S.r.l., Milan, Italy	100%	-
11.	MyBrands Zalando eLogistics West GmbH & Co. KG, Berlin	100%	-
12.	Kiomi GmbH, Berlin	100%	-

Subsequent events

There were no significant events after the end of the reporting period which could materially affect the net assets, financial position and results of operations of the Group.

Authorization of the financial statements for issue

The consolidated financial statements and group management report of Zalando GmbH are published in the *Bundesanzeiger* (German Federal Gazette). The consolidated financial statements and the group management report were authorized for issue by management on 27 March 2013.

Berlin, 27 March 2013

The management

Robert Gentz David Schneider Rubin Ritter