Consolidated financial statements 2013[1]

Zalando AG, Berlin

(formerly: 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)

Translation from the German language

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Consolidated statement of comprehensive income

for the fiscal year from 1 January 2013 to 31 December 2013

in EUR k	Note	1 Jan - 31 Dec 2013	1 Jan* - 31 Dec 2012
Revenue	(1)	1,762,020	1,158,675
Cost of sales	(2)	-1,046,960	-623,831
Gross profit		**715,060**	**534,844**
Selling and distribution costs	(3)	-733,460	-560,679
Administrative expenses	(4)	-105,107	-63,178
Other operating income	(5)	12,461	6,260
Other operating expenses	(6)	-2,900	-822
Earnings before interest and taxes (EBIT)		**-113,946**	**-83,575**
Interest income	(7)	393	1,447
Interest expenses	(7)	-2,873	-2,405
Other financial result	(7)	-826	-21
Financial result		**-3,306**	**-979**
Earnings before taxes (EBT)		**-117,252**	**-84,554**
Income taxes	(8)	660	-516
Net loss after tax		**-116,592**	**-85,070**
Thereof net loss attributable to the shareholders of Zalando AG		*-116,592*	*-85,070*
Net loss for the period as a percentage of revenue		*-6.6%*	*-7.3%*

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

in EUR k	As of 31 Dec 2013	1 Jan - 31 Dec 2012
Net loss after tax	**-116,592**	**-85,070**
Items recycled to profit or loss in subsequent periods		
Effective portion of gains/losses from cash flow hedges, net of tax	355	-499
Exchange differences on translation of foreign financial statements	-94	-33
Other comprehensive income	261	-532
Total comprehensive income	**-116,331**	**-85,602**
Thereof net loss attributable to the shareholders of Zalando AG	*-116,331*	*-85,602*

*The allocation to the various functions and the presentation of government grants was changed and the figures for fiscal year 2012 adjusted in accordance with the explanations made in Section B of the notes.

Translation from the German language

Consolidated statement of financial position

as of 31 December 2013

Assets

in EUR k	Note	31 Dec 2013	*31 Dec 2012
Non-current assets			
Intangible assets	(10)	21,265	9,866
Property, plant and equipment	(11)	105,734	43,328
Other financial assets	(12)	48,053	31,684
Deferred tax assets	(8),(24)	1,017	0
		176,069	**84,878**
Current assets			
Inventories	(13)	332,526	231,430
Prepayments	(13)	795	1,552
Trade and other receivables	(14)	87,241	65,595
Other financial assets	(15)	13,454	14,407
Other non-financial assets	(15)	44,482	45,182
Cash and cash equivalents	(16)	417,161	382,307
		895,659	**740,473**
Total assets		**1,071,728**	**825,351**

*A change has been made to the method of presenting returns and government grants and the figures for fiscal year 2012 adjusted in accordance with the explanations made in Section B of the notes.

Translation from the German language

Consolidated statement of financial position

as of 31 December 2013

Equity and liabilities

in EUR k	Note	31 Dec 2013	*31 Dec 2012
Equity			
Issued capital	(17)	118	111
Capital reserves	(17)	833,264	628,625
Retained earnings		-271	-532
Accumulated loss	(17)	-286,600	-170,008
		546,511	**458,196**
Non-current liabilities			
Provisions	(19)	4,692	2,234
Government grants	(20)	1,449	0
Financial liabilities	(I)	16,973	11,100
Other financial liabilities	(22)	2,948	1,842
Other non-financial liabilities	(22)	3,116	1,983
		29,178	**17,159**
Current liabilities			
Financial liabilities	(I)	3,243	3,243
Trade payables	(21)	410,022	294,624
Prepayments received	(21)	7,353	2,243
Income tax liabilities	(22)	126	384
Other financial liabilities	(22)	34,946	31,930
Other non-financial liabilities	(22)	40,349	17,572
		496,039	**349,996**
Total equity and liabilities		**1,071,728**	**825,351**

*A change has been made to the method of presenting returns and government grants and the figures for fiscal year 2012 adjusted in accordance with the explanations made in Section B of the notes.

Translation from the German language

Consolidated statement of changes in equity

for the fiscal year from 1 January 2013 to 31 December 2013

				Retained earnings			
in EUR k	**Note**	**Issued capital**	**Capital reserves**	**Cash flow hedges**	**Currency translation**	**Accumulated loss**	**Total**
As of 1 Jan 2013		**111**	**628,625**	**-499**	**-33**	**-170,008**	**458,196**
Net loss for the period		0	0	0	0	-116,592	-116,592
Other comprehensive income		0	0	355	-94	0	261
Total comprehensive income		**0**	**0**	**355**	**-94**	**-116,592**	**-116,331**
Capital increase	(17)	7	199,990	0	0	0	199,997
Share-based payments	(18)	0	5,316	0	0	0	5,316
Shareholder contributions	(17)	0	0	0	0	0	0
Transaction costs	(17)	0	-667	0	0	0	-667
As of 31 Dec 2013		**118**	**833,264**	**-144**	**-127**	**-286,600**	**546,511**

Translation from the German language

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**	**Cash flow hedges**	**Currency translation**	**Accumulated loss**	**Total**
As of 1 Jan 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
Transaction costs	(17)	0	0	0	0	0	0
As of 31 Dec 2012		**111**	**628,625**	**-499**	**-33**	**-170,008**	**458,196**

Translation from the German language

Consolidated statement of cash flows

for the fiscal year from 1 January 2013 to 31 December 2013

in EUR k			Note	1 Jan - 31 Dec 2013	1 Jan - 31 Dec 2012
1.		Net loss after tax		-116,592	-85,070
2.	+	Non-cash expenses from share-based payments	(18)	5,316	6,473
3.	+	Amortization and depreciation of non-current assets	(10), (11)	14,944	6,244
4.	+	Increase in provisions	(19)	19	609
5.	+/-	Other non-cash expenses/income		-3,335	540
6.	-	Increase in inventories	(13)	-101,096	-122,483
7.	-	Increase in trade receivables	(14)	-21,646	-44,594
8.	+	Increase in trade payables	(21)	101,462	163,923
9.	+/-	Decrease/increase in other assets/liabilities		40,774	-19,977
10.	**=**	**Cash flow from operating activities**		**-80,154**	**-94,335**
11.	-	Cash paid for investments in property, plant and equipment	(11)	-54,508	-37,029
12.	-	Cash paid for investments in intangible assets	(10)	-19,305	-9,540
13.	+/-	Decrease/increase in restricted cash	(12)	-16,382	-24,741
14.	**=**	**Cash flow from investing activities**		**-90,195**	**-71,310**
15.	+	Cash received from capital increases by the shareholders	(17)	199,330	431,802
16.	+	Cash received from loans		9,116	15,116
17.	-	Cash repayments of loans		-3,243	-774
18.	+/-	Other non-cash changes		0	-21
19.		**Cash flow from financing activities**		**205,203**	**446,123**
20.	=	Net change in cash and cash equivalents from cash relevant transactions		34,854	280,478
21.	+	Cash and cash equivalents at the beginning of the fiscal year		382,307	101,829
22.	**=**	**Cash and cash equivalents as of 31 December**		**417,161**	**382,307**

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Notes to the consolidated financial statements

A. Corporate information

Company, registered office

Zalando AG, 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. 154823 B and was entered for the first time in the commercial register there on 12 March 2008.

By resolution dated 6 December 2013 and entry in the commercial register on 12 December 2013, the legal form of Zalando GmbH was changed to that of a stock corporation in accordance with the provisions of the UmwG. The conversion of the Company's legal form is a step that has been planned for a long time in order to move towards a corporate structure that befits the size of the Company and raises its international acceptance.

Nature of operations

Zalando is one of Europe's largest online providers of shoes and fashion items. The wide range of items for women, men, and children extends from popular trendy brands to sought-after designer labels – all in all, Zalando works with over 1,500 brand name manufacturers. In addition to shoes and clothing, it also offers exclusive accessories as well as sporting goods as part of its extensive product range. Zalando's offering has been broadened and enhanced with the Zalando Lounge, which offers registered members special offers at highly discounted prices. The Company also offers an extensive combination of unique services that include free delivery and return, a free service hotline as well as a 100-day right of return for all products, making online shopping a secure and relaxing experience.

The Company was founded in 2008 and has its registered offices in Berlin. After its great success in Germany, it has now also be delivering to neighboring countries in Europe since 2009. This measure started with Austria in 2009 and was followed in the fiscal year 2010 by the Netherlands and France. Italy, the UK and Switzerland followed suit in the fiscal year 2011. Since 2012, Zalando has also been online in Sweden, Belgium, Spain, Denmark, Finland, Poland and Norway. In the current fiscal year, Luxembourg joined the list of countries to which the Company delivers.

B. General

Application of IFRS

Zalando AG, Berlin, is the parent of the Zalando Group ("Zalando" or the "Group"). The consolidated financial statements of Zalando AG for the reporting period ended 31 December 2013 comply with the International Financial Reporting Standards (IFRSs) as adopted by the EU. In addition, the provisions of Sec. 315a (1) in conjunction with (3) HGB have been taken into account.

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.

General

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 unless otherwise indicated.

Retroactive adjustments – cost of sales method

In the course of harmonizing internal and external accounting, the allocation of costs to functions based on the function of expense method was partly modified. The prior-year figures have been restated accordingly. In detail,

- Write-downs on receivables and bad debts were reclassified from other operating expenses to selling and distribution costs (prior year: EUR 24,979k)

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- Cost elements related to the payment process were taken out of cost of sales (prior year: EUR 190k) and administrative expenses (prior year: EUR 8,739k) and allocated to selling and distribution costs
- Cost elements of the purchasing department were reclassified from administrative costs (prior year: EUR 10,982k) to cost of sales.

Because the changes only involve movements within the functional areas of the function of expense method, EBIT and the net loss for the year remain unaffected, even in the prior year.

Retroactive adjustments – net presentation of government grants

Zalando has changed its presentation of government grants for property, plant and equipment to bring it in line with the industry standard, to improve comparison with the financial reporting of its competitors. The subsidies are now reported on a net basis both in the statement of financial position and in the income statement – the subsidies granted for the non-current assets reduce the cost and reduce amortization and depreciation accordingly. The change in accounting policy means that

- the government grants recognized thus far as a liability will be offset against intangible assets (prior year: EUR 81k) and property, plant and equipment (prior year: EUR 1,844k);
- the deferred item (prior year: EUR 444k) which was thus far released to other operating income will be netted with the cost of sales (prior year: EUR 13k), with selling and distribution costs (prior year: EUR 88k) and with administrative expenses (prior year: EUR 343k).

If the old method had been retained in fiscal 2013:

- deferred government grants would not have been offset against intangible assets (EUR 192k) and property, plant and equipment (EUR 10,790k);
- other operating income would have been EUR 1,396k higher, the cost of sales EUR 105k higher, selling expenses EUR 705k higher and administrative expenses EUR 585k higher.

The change in presentation did not have any influence on equity or the net profit or loss for the year.

Retroactive adjustments – Gross presentation of expected returns

Zalando changed the accounting for expected returns (returned goods) to a more informative gross presentation. This new approach corresponds to the presentation method provided for in the Revised Exposure Draft ED/2011/6 *Revenue from Contracts with Customers*.

Up to now, Zalando reported the risk for the contractually permitted return of articles in a provision. Using a gross method limited thus far to the income statement, a provision was recognized for the average gross profit margin based on the average rate of returns. The provision for returns also included other costs for expected returns.

Zalando now also presents expected returns on a gross basis in the statement of financial position. To this end, the Company recognizes a right to recover possession from expected returns, derecognizes customer receivables that have not yet been paid on a flat rate basis, and recognizes a refund obligation for customer receivables that have already been paid and for which a return is expected. The transition to the new method of presentation results in the following changes:

- Zalando recognizes a right to recover possession of goods (prior year: EUR 26,590k) from expected returns in other non-financial assets. The amount of the asset corresponds to the cost of the goods delivered for which a return is expected, taking into account the costs incurred for processing the return and the losses resulting from disposing of these goods;
- Inventories increase by the write-down relating to the right to recover possession (prior year: EUR 2,707k);
- Trade receivables that have not yet been paid and that have underlying transactions that are not expected to be closed due to the goods being returned are derecognized (prior year: EUR 39,882k);
- For customer receivables already paid and for which returns are expected in the future, Zalando recognizes a refund obligation vis-à-vis the customer within other current financial liabilities (prior year: EUR 24,738k).

The income statements for the years 2012 and 2013 are not affected by these changes.

If the old method had been retained in fiscal 2013:

- Trade receivables would have been EUR 28,144k higher;
- The rights to repossess goods recognized under other non-financial assets would have been lower by an amount of EUR 18,729k;
- Inventories would have been EUR 3,152k lower;

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- Other financial liabilities for reimbursement claims would have been EUR 19,887k lower;
- and provisions for returns would have been EUR 26,151k higher.

If the method applied previously had been applied to the opening statement of financial position as of 1 January 2012 then:

- Trade receivables would have been EUR 12,377 higher;
- The rights to repossess goods from customers recognized under other non-financial assets would have been EUR 10,129k lower;
- Inventories would have been EUR 827k lower;
- Other financial liabilities to reimburse customers would have been EUR 8,515k lower;
- Provisions for returns would have been EUR 9,936k higher.

C. New accounting standards issued by the IASB

Applicable standards

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 in the endorsement procedure.

New accounting standards issued by the IASB applicable for the first time in the 2013 reporting period

The following new standards, interpretations and amendments to the IAS/IFRSs were adopted in the reporting period as they were subject to mandatory application.

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

The amendments to IAS 1 change the grouping of items presented in other comprehensive income (OCI). Items that will be recycled through profit or loss at a future point in time (for example, net gain on hedges 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) are presented separately from items that will not be recycled (for example, actuarial gains and losses on defined benefit plans and revaluation of land and buildings). The amendments are effective for reporting periods beginning on 1 July 2012. It does not have any effect on the consolidated financial statements of Zalando AG.

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. It does not have any effect on the consolidated financial statements of Zalando AG.

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 applied. IFRS 13 becomes effective for the first time for reporting periods beginning on or after 1 January 2013. The first-time adoption of

IFRS 13 only affects disclosures in the notes to the consolidated financial statements of Zalando AG.

In addition, other amendments to the standards had to be adopted in 2013 which did not have an impact on the consolidated financial statements.

New accounting standards issued by the IASB not yet applicable in the 2013 reporting period

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

In November 2009, the IASB issued the first part of IFRS 9, which initially only governs the classification and measurement of financial assets. According to the amended standard, financial assets must be measured either at amortized cost or at fair value through profit or loss depending on their characteristics and taking account of the business model. The supplementary part issued in October 2010 lays out the new standards for the classification and measurement of financial liabilities. The new standards primarily change the measurement of financial liabilities which are new measured through profit or loss when exercising the fair value option. In November 2013, the IASB released the additions to IFRS 9 which contain new standards on hedge accounting and replace the corresponding rules found in IAS 39. With these additions, a new general model has been introduced for measuring hedging relationships that extends the scope of the hedged items and hedging instruments that qualify.

However, there is an option to treat all hedging relationships under the existing rules of IAS 39 or the new treatment set out by IFRS 9. Moreover, the IASB revoked the date of first time application for IFRS 9 of 1 January 2015. A new date of mandatory first-time application will be set when the standard is finalized in full.

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 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 ventures. 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 AG. 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.

Amendment to 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.

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Amendments to IFRS 10, IFRS 11 and IFRS 12 – Amendments to the transition requirements

The amendment relates to transitional provisions for the first-time application of the standards. According to the new provisions, control has to be assessed at the beginning of first-time application and not already at the beginning of the comparative period. In addition, it is no longer necessary to disclose comparative information on non-consolidated structured entities. The amendment is effective for reporting periods beginning on or after 1 January 2014. This has no impact on the consolidated financial statements of Zalando AG.

In addition, the IASB has released other standards and amendments to standards which need to be applied in future but which do not have any impact on the consolidated financial statements of Zalando AG.

D. Principles of consolidation

Basis of consolidation

Following the sale of a subsidiary and the establishment of eight new entities, the number of subsidiaries in the basis of consolidation rose from 12 (prior year) to 19.

Reporting date of the consolidated financial statements

The consolidated financial statements cover the 2013 fiscal year on the basis of the reporting period from 1 January to 31 December of the year 2013. Apart from abbreviated reporting periods due to the establishment of entities, the reporting period 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 their 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 income against expenses. Intercompany profits and losses are eliminated.

Foreign currency translation

The consolidated financial statements are presented in euro, which is Zalando AG'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. Income and expenses in the statement of comprehensive income are translated at historical exchange rates. If exchange rates do not fluctuate substantially, weighted average rates are used instead. The equity of the subsidiaries is translated at the corresponding historical rates. The exchange differences

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arising from the translation of financial statements prepared in foreign currency are recognized as a translation reserve 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

A distinction needs to be made between intangible assets with a finite useful life and intangible assets with indefinite useful lives.

Intangible assets with finite useful 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 accounted for by changing 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. The carrying amounts of brands and domain rights are immaterial from the Group's perspective.

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 charged over the period of expected future benefit. Research costs are expensed in the period in which they arise.

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. Depreciation is charged on a straight-line basis over the following useful lives.

Useful lives	years
Leasehold improvements	11-17
Plant and machinery	5-15
Furniture, fixtures and office equipment	2-15

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

The residual values, useful lives and methods of depreciation of property, plant and equipment are reviewed at the end of each reporting period 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 2013 reporting period.

Current versus non-current classification

The Group classifies its assets and liabilities in the statement of financial position into current and non-current items. An asset is to be classified as current when

- the asset is expected to be realised, or intended to be sold or consumed, within the normal operating cycle;
- it is held primarily for the purpose of trading;
- it is expected to be realised within twelve months after the reporting period or

it is cash or a cash equivalent unless it is restricted from being exchanged or used to settle a liability for at least twelve months after the reporting period.

All other assets are classified as non-current. A liability is to be classified as current when

- the liability is expected to be settled within the normal operating cycle,
- It is held primarily for the purpose of trading;
- it is expected to be realised within twelve months of the reporting date or
- the entity does not have an unconditional right to defer settlement of the liability for at least twelve months after the reporting period.

All other liabilities are classified as non-current.

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

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 the inception date. It requires an assessment of 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 or assets, 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 operating 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 tax liabilities

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 sufficiently 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 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.

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

Inventories

Merchandise accounted for as inventories is recognized at cost pursuant to IAS 2. Cost is calculated on the basis of an item-by-item valuation factoring in the weighted average of additions 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 sell. Adequate write-downs to net realizable value were made to allow for all risks from slow-moving goods and/or reduced salability. When the circumstances that previously caused merchandise to be written down below cost no longer exist, the write-down is reversed.

Financial instruments

General

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, canceled, or have expired.

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

Translation from the German language

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 (in the case of financial assets) 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.

If there are indications of permanent impairment for financial assets that are not measured at fair value 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 assets, the impairment losses are recognized in separate accounts.

Loans and receivables are non-derivative financial assets with fixed or determinable payments and that are not listed 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 fair value for financial assets are recognized with an effect on profit or loss.

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 other comprehensive income. The fluctuations in value recognized in other comprehensive income 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 listed 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 sales-channel and country-specific allowance rates based on how long they are past due and other factors with an impact on value.

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 of 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 a hedged item (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 official exchange rates as of the reporting date 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 using market discount rates for the remaining term 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.

Translation from the German language

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 and pounds sterling 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.

Fair value measurement

Fair value measurement assumes that the business transaction in the course of which the asset is sold or the liability is transferred takes place either on the:

- principal market for the asset or the liability or the
- most advantageous market for the asset or liability if there is no principal market.

The Group must have access to the principal market or the most advantageous market.

The fair value of an asset or liability is measured based on the assumptions that market participants would make when setting the price for the asset or liability. It is assumed here that the market participants are acting in their best economic interest.

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

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

- Level 1: listed (unadjusted) prices in active markets for identical assets or liabilities.
- Level 2: Other techniques for which the lowest inputs which have a significant effect on measurement are observable, either directly or indirectly.
- Level 3: Other techniques for which the lowest input having a significant effect on fair value measurement is not based on observable market data.

For assets or liabilities that are recorded in the financial statements on a recurring basis, the Group determines whether reclassification has taken place between the levels of the hierarchy by examining the classification at the end of each reporting period (based on the input parameter of the lowest level that is material to fair value measurement on the whole).

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 twelve months are discounted to the reporting date.

Restoration obligations

The Group recognizes provisions for restoration expenses for leasehold improvements in the leased warehouses. The provision is recognized at an amount equivalent to the present value of the estimated future restoration obligations. The restoration obligations are recognized as part of the cost of 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 arrangement is canceled, 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 canceled award, and designated as a replacement award on the date that it is granted, the canceled 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 H (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 was remeasured at each reporting date and on the grant date, with changes in fair value recognized in profit or loss (see note H (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 twelve 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.

Translation from the German language

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.

Expected returns

Zalando presents the expected returns of goods on a gross basis in the statement of income and reduces revenue by the full amount of sales that it estimates will be returned. The dispatch of goods that is recorded in full upon dispatch of the goods is then corrected by the estimated amount of returns.

Government grants

Government grants are recognized where there is reasonable assurance that the grant will be received and all attached conditions will be complied with. Subsidies are deducted from the cost of the subsidized assets in the statement of financial position.

When the government grant relates to an expense item, it is recognized as income on a systematic basis over the periods 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 notes H (13) and H (14),
- For more information on setting the ratio of returns, please see 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 H (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 2013	1 Jan - 31 Dec 2012
Revenue from the sale of merchandise	1,742,571	1,148,489
Revenue from other services	19,449	10,186
Total	**1,762,020**	**1,158,675**

Zalando was able to significantly increase its revenue in all market segments. In particular, the countries where operations commenced in 2012 displayed strong growth. In the current fiscal year, Luxembourg joined the list of countries to which the Company delivers.

(2) Cost of sales

in EUR k	1 Jan - 31 Dec 2013	1 Jan - 31 Dec 2012
Non-personnel costs	1,002,561	608,211
Personnel costs	44,399	15,620
Total	**1,046,960**	**623,831**

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 979,861k (prior year: EUR 589,126k).

In fiscal year 2013, the Zalando Group reported a gross profit on sales of EUR 715,060k (prior year: EUR 534,844k).

(3) Selling and distribution costs

in EUR k	1 Jan - 31 Dec 2013	1 Jan - 31 Dec 2012
Non-personnel costs	628,600	501,436
Personnel costs	104,860	59,243
Total	**733,460**	**560,679**

Due to the strong rise in sales, selling and distribution costs rose by EUR 172,781k to EUR 733,460k. They mainly consist of marketing costs as well as freight and logistics costs.

(4) Administrative expenses

in EUR k	1 Jan - 31 Dec 2013	1 Jan - 31 Dec 2012
Non-personnel costs	38,087	17,188
Personnel costs	67,020	45,990
Total	**105,107**	**63,178**

Administrative expenses primarily contain personnel costs and office expenses as well as legal and advisory expenses.

(5) Other operating income

in EUR k	I Jan - 31 Dec 2013	1 Jan - 31 Dec 2012
Other income, marketing	4,711	4,410
Income from the derecognition of liabilities	1,781	83
Income relating to other periods	653	2
Insurance indemnification and compensation payments	654	250
Other income	4,662	1,515
Total	**12,461**	**6,260**

Other income marketing primarily results from income from the advertising business and advertising subsidies. Other income mainly includes income from the distribution costs of the partner program, income from waste management and other non-cash payments.

(6) Other operating expenses

Other operating expenses primarily comprise expenses relating to other periods.

Translation from the German language

(7) Financial result

in EUR k	1 Jan - 31 Dec 2013	1 Jan - 31 Dec 2012
Interest income from cash at banks	393	1,447
Other interest and similar income	**393**	**1,447**
Other interest expenses	-2,873	-2,405
Interest and similar expenses	**-2,873**	**-2,405**
Interest result	**-2,480**	**-958**

Other interest expenses mainly pertain to interest expenses from borrowing. The remaining elements of the financial result of EUR -826k (prior year: EUR -21k) mainly concern exchange rate gains and losses.

(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 assessment period 2013 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 2013	1 Jan - 31 Dec 2012
Deferred taxes	1,017	0
Current taxes in Germany	-225	-273
Current taxes in other countries	-132	-243
Total	**660**	**-516**

In the reporting period 2013, Zalando recognized deferred tax assets on unused tax losses of EUR 1,017k (prior year: EUR 0k). The amount recognized for the zLabels GmbH subsidiary is based on the profit recorded in the reporting period and on prospective earnings for future periods.

Where they have not been offset against deferred tax liabilities, tax assets have not been recognized in respect of the remaining losses because the probability required by the standard for recognition does not exist at present.

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 preliminary EUR 274m and preliminary EUR 277m respectively (prior year: EUR 161m and EUR 164m 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.

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 AG, of 30.175% had been applied to the Group's earnings before income taxes for the year under IFRSs:

in EUR k	**31 Dec 2013**	**31 Dec 2012**
Earnings before taxes	-117,252	-84,554
Income tax rate for the Group (Germany including trade tax)	30.175%	30.175%
Expected tax expense/income (income +, expense -)	-35,381	25,514
Unrecognized deferred tax assets	-34,108	-25,461
Tax rate differences	-1,282	-125
Addbacks and reductions for trade tax purposes	-476	-24
Recognition of deferred taxes from prior periods	1,017	0
Other	128	-420
Income tax expense according to the income statement	**660**	**-516**
Effective tax rate	-0.56%	0.61%

Translation from the German language

(9) Personnel expenses

in EUR k	1 Jan - 31 Dec 2013	1 Jan - 31 Dec 2012
Wages and salaries	181,645	102,382
Social security, pension and other benefit costs	34,634	18,471
- thereof pension costs	120	196
Total	**216,279**	**120,853**

In the reporting period, 6,632 persons on average were employed in the Group (prior year: 4,100). The contributions to statutory pension insurance increased by EUR 7,015k to EUR 14,966k.

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 11,243k (prior year: EUR 3,049k) relates to capitalized development costs. This exclusively concerns software.

An immaterial amount of research costs were incurred.

There were no intangible assets with indefinite useful lives, apart from the brand names and domain rights recognized of EUR 690k (prior year: EUR 602k).

Amortization of EUR 7,907k (prior year: EUR 3,353k) was recorded in the reporting period. Of this amount, EUR 1,202k (prior year: EUR 215k) is recognized in cost of sales, EUR 3,571k (prior year: EUR 1,431k) in selling and distribution costs and EUR 3,134k (prior year: EUR 1,707k) in administrative expenses.

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

in EUR k	Capitalized development costs	Industrial rights, similar rights and assets as well as licenses	Prepayments	Total
Historical cost				
As of 1 Jan 2013	5,472	7,841	837	**14,150**
Additions	11,243	6,700	1,370	**19,313**
Disposals	0	-11	0	**-11**
Reclassifications	823	0	-823	**0**
As of 31 Dec 2013	17,538	14,530	1,384	**33,452**
Amortization				
As of 1 Jan 2013	1,704	2,580	0	**4,284**
Additions	3,873	4,034	0	**7,907**
Disposals	0	-3	0	**-3**
Reclassifications	0	0	0	**0**
As of 31 Dec 2013	5,577	6,611	0	**12,187**
Carrying amounts				
As of 31 Dec 2012	3,768	5,261	837	**9,866**
As of 31 Dec 2013	11,961	7,919	1,385	**21,265**

Translation from the German language

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

in EUR k	Capitalized development costs	Industrial rights, similar rights and assets as well as licenses	Prepayments	Total
Historical cost				
As of 1 Jan 2012	2,423	2,356	0	**4,779**
Additions	3,049	5,485	837	**9,371**
As of 31 Dec 2012	5,472	7,841	837	**14,150**
Amortization				
As of 1 Jan 2012	355	576	0	**931**
Additions	1,349	2,004	0	**3,353**
As of 31 Dec 2012	1,704	2,580	0	**4,284**
Carrying amounts				
As of 31 Dec 2011	2,068	1,780	0	**3,848**
As of 31 Dec 2012	3,768	5,261	837	**9,866**

(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 7,037k (prior year: EUR 2,890k), an amount of EUR 1,655k (prior year: EUR 728k) is recognized in cost of sales, EUR 4,192k (prior year: EUR 1,458k) in selling and distribution costs and EUR 1,190k (prior year: EUR 704k) in administrative expenses.

The following table shows the change in property, plant and equipment in the 2013 reporting period:

in EUR k	Plant and machinery	Other equipment, furniture and fixtures	Prepayments	Total
Historical cost				
As of 1 Jan 2013	1,552	28,182	17,567	**47,301**
Additions	5,765	17,528	46,507	**69,800**
Disposals	0	-403	-69	**-472**
Reclassifications	15,505	1,982	-17,487	**0**
As of 31 Dec 2013	22,822	47,289	46,519	**116,630**
Depreciation				
As of 1 Jan 2013	115	3,858	0	**3,973**
Additions	1,418	5,620	0	**7,037**
Disposals	0	-115	0	**-115**
As of 31 Dec 2013	1,533	9,363	0	**10,894**
Carrying amounts				
As of 31 Dec 2012	1,437	24,324	17,567	**43,328**
As of 31 Dec 2013	21,290	37,926	46,519	**105,734**

Translation from the German language

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

in EUR k	Plant and machinery	Other equipment, furniture and fixtures	Prepayments	Total
Historical cost				
As of 1 Jan 2012	1,016	8,374	5,142	**14,532**
Additions	784	15,005	17,152	**32,941**
Disposals	0	-172	0	**-172**
Reclassifications	-248	4,975	-4,727	**0**
As of 31 Dec 2012	1,552	28,182	17,567	**47,301**
Depreciation				
As of 1 Jan 2012	29	1,215	0	**1,244**
Additions	90	2,800	0	**2,890**
Disposals	0	-161	0	**-161**
Reclassifications	-4	4	0	**0**
As of 31 Dec 2012	115	3,858	0	**3,973**
Carrying amounts				
As of 31 Dec 2011	987	7,159	5,142	**13,288**
As of 31 Dec 2012	1,437	24,324	17,567	**43,328**

(12) Other non-current financial assets

Other financial assets mainly contain deposits from existing rent agreements of the Zalando Group of EUR 493k (prior year: EUR 502k) as well as non-current restricted cash of EUR 47,443k (prior year: EUR 31,061k).

(13) Inventories and advance payments

Inventories of merchandise, mainly consisting of the shoes and textiles product groups, are recognized at an amount of EUR 332,526k (prior year: EUR 231,430k).

Allowances of EUR 58,156k (prior year: EUR 22,549k) were recognized on inventories and prospective returns.

The increase in inventories by EUR 101,096k to EUR 332,526k results from the increased business volume and the associated need for more extensive warehouse stocks of shoes, clothing and other articles.

Prepayments pertain to advance payments for merchandise.

(14) Trade and other receivables

Trade receivables are mainly due from customers of Zalando AG. The entire portfolio of receivables was reduced by a valuation allowance, as in the prior year.

The valuation allowances recorded on receivables in the reporting year amounted to the EUR 17,548k (prior year: EUR 24,145k) and posted to profit and loss. A portfolio-based specific allowance was thus recognized for a cumulative amount of EUR 52,062k (prior year: EUR 34,514k) of receivables. Overall, write-downs on trade receivables developed as follows:

in EUR k	31 Dec 2013	31 Dec 2012
Accumulated write-downs as of 1 January	**34,514**	**10,369**
Portfolio-based specific valuation allowances	17,548	24,145
Accumulated write-downs as of 31 December	**52,062**	**34,514**

The additions to write-downs on trade receivables are reported under selling and distribution costs. 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 4,522k in the reporting period (prior year: EUR 834k).

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

Other financial assets mainly comprise creditors with debit balances and receivables from subsidies for personnel expenses.

Other non-financial assets generally consist of the right to repossess goods associated with the volume of expected returns, measured at EUR 18,728k (prior year: EUR 26,590k) and receivables from the tax office.

(16) Cash and cash equivalents

Cash and cash equivalents exclusively comprise cash at banks and cash on hand of EUR 417,161k (prior year: EUR 382,307k).

(17) Equity

Issued capital amounted to EUR 117,789 as of 31 December 2013 (prior year: EUR 110,721). It was contributed in full by the change of form pursuant to Sec. 190 et seq. UmwG ["Umwandlungsgesetz": Law of Reorganizations]. Issued capital is divided into 117,789 no-par value registered shares.

The management board is authorized, subject to the approval of the supervisory board, to raise the share capital by 28 December 2018 by up to EUR 2,877 through issue of up to 2,877 no-par value registered shares in return for a cash contribution (authorized capital 2013).

The share capital is increased contingently by up to EUR 5,250 through the issue of up to 5,250 no-par value registered shares (conditional capital 2013). The conditional capital is linked to the servicing of subscription rights. No option had been exercised in this regard by 31 December 2013.

The *capital reserve* mainly consists of additional paid-in capital from the shareholders of EUR 199,990k (prior year: EUR 431,784k) related to the capital increases mentioned above. Moreover, amounts related to share-based payment plans pursuant to IFRS 2 were added and transaction costs related to equity transactions deducted.

The *accumulated loss* results from the loss carryforwards of past reporting periods and from the net loss for the current reporting period.

The development of equity is shown in the detail in the consolidated statement of changes in equity.

(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

As of the reporting date, Zalando has various equity-settled share-based payment awards in place. For reporting purposes, plans with substantial similarities are grouped together. Zalando makes a distinction between two kinds of plans. The first cluster includes payment awards that are exercised depending solely on the condition of period of service. The second cluster includes plans that are linked to performance as well as period of service.

Cluster 1

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 for 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 beneficiaries 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 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 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
Outstanding options as of 31 December 2012	**3,524**	**4,947**
Options vested as of 31 December 2012	**1,993**	**2,863**
Outstanding options as of 1 January 2013	**3,524**	**4,947**
Options granted during the reporting period	130	1
Options forfeited during the reporting period	57	1
Options exercised during the reporting period	736	1
Outstanding options as of 31 December 2013	**2,861**	**6,093**
Options vested as of 31 December 2013	**1,764**	**4,492**

The weighted average share value on the date of exercise of an option exercised in the reporting period 2013 amounted to EUR 24,881 (prior year: EUR 20,439).

The outstanding options combined in Cluster 1 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 amount, 1,211 outstanding options (prior year: 1,874 outstanding options) have an exercise price of EUR 1 and 1,650 outstanding options (prior year: also 1,650 outstanding options) have an exercise price of EUR 10,565. The beneficiaries can exercise vested options for an unlimited period.

Translation from the German language

The weighted average fair value of a new option granted during the 2013 reporting period was EUR 21,993 (prior year: EUR 20,438). The fair value of the options consists of an intrinsic value and the fair value. For the options grouped in Cluster 1, which have an exercise price of EUR 1, the fair value of the options is negligibly low due to the low strike 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:

	1 Jan – 31 Dec 2013	1 Jan – 31 Dec 2012
Weighted average share price (EUR)	21,994	20,439
Weighted average exercise price (EUR)	1	1
Expected volatility (%)	n/a	n/a
Expected life of option (years)	n/a	n/a
Expected dividends (%)	0.0%	0.0%
Risk-free interest rate for equivalent maturities (%)	n/a	n/a

The share price used in the valuation model was determined based on the transaction.

Cluster 2

The second cluster includes call options granted in the 2013 reporting period to members of management that hold key positions in the Zalando Group. The options entitle the holders to acquire shares in the company if three key conditions are satisfied: the employees must work for the Company for the specified period of time, the performance target has to be fulfilled and the waiting period has to have elapsed.

The participants can earn the total options granted in 60 sub-tranches over a period of five years. The condition relating to the period of service is met if the beneficiary is employed at Zalando over the vesting period of the respective sub-tranche. The performance target requires that Zalando achieves a certain average annual revenue growth over the coming four years. The standstill period commences on the date on which the option is granted. It continues for a period of four years.

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

	Number	Weighted average exercise price (EUR)
Outstanding options as of 1 January 2013	**0**	**0**
Options granted during the reporting period	5,250	29,234
Options forfeited during the reporting period	0	0
Options exercised during the reporting period	0	0
Outstanding options as of 31 December 2013	**5,250**	**29,234**
Options vested as of 31 December 2013	**0**	**0**

The weighted average of the remaining contractual term is four years and two months as of the reporting date. The weighted average fair value of a new option granted during the 2013 reporting period was EUR 5,968. The fair value of the options comprises the intrinsic value and the fair value multiplied by the probability that the performance target will be reached. The fair value of the option was calculated using the Black-Scholes option price model. The input parameters included in the calculation of the newly granted options are summarized in the following table:

	1 Jan – 31 Dec 2013	1 Jan – 31 Dec 2012
Weighted average share price (EUR)	29,234	n/a
Weighted average exercise price (EUR)	29,234	n/a
Expected volatility (%)	30.1%	n/a
Expected life of option (years)	4.2	n/a
Expected dividends (%)	0.0%	n/a
Risk-free interest rate for equivalent maturities (%)	0.6%	n/a
Probability of reaching the performance targets (%)	81.2%	n/a

The share price used in the valuation model was determined based on the transaction. The expected volatility used in the model is based on the past figures of comparable publicly listed companies. A best estimate was made for the expected life of the option in line with the factors contained in IFRS 2.B18. The risk-free interest rate for equivalent maturities was calculated using the Svensson method. The probability that the performance target will be reached was determined based on the market in as far as possible.

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

Translation from the German language

accounted for as cash-settled share-based payments in accordance with the provisions of IFRS 2.

Firstly, 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. Secondly, the outstanding cash-settled share-based payment awards at the reporting date include a phantom stock option program. It 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 5,002k for cash-settled share-based payment transactions (prior year: EUR 2,799k).

Total expenses recognized for share-based payment awards

The expenses recognized for share-based payment awards in the 2013 and 2012 reporting periods break down as follows (in EUR k):

in EUR k	1 Jan - 31 Dec 2013	1 Jan - 31 Dec 2012
Equity-settled	5,316	6,473
Cash-settled	2,124	1,059
Total expenses recognized	**7,440**	**7,532**

(19) Provisions

Provisions developed as follows in the 2013 reporting period:

in EUR k	1 Jan 2013	Addition	Interest expenses	31 Dec 2013
Restoration obligations	2,225	2,318	121	4,664
Other provisions	9	19	0	28
Total	**2,234**	**2,337**	**121**	**4,692**

Provisions were mainly recognized for restoration obligations. These pertain exclusively to leasehold improvements.

The following table shows the maturities of the provisions in the 2013 reporting period:

	Due in			
in EUR k	**less than 1 year**	**1–5 years**	**More than 5 years**	**Total**
Restoration obligations	0	0	4,664	4,664
Other provisions	0	0	28	28
Total	**0**	**0**	**4,692**	**4,692**

(20) Government grants

The grants relate solely to investment subsidies for personnel costs.

(21) Trade payables and advance payments received

Trade payables rose by EUR 115,398k to EUR 410,022k. There are no significant liabilities denominated in foreign currency as of the reporting date.

Prepayments received pertain to advance payments received from customers for orders.

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

The other non-financial liabilities mainly result from liabilities relating to gift vouchers as well as obligations to employees and liabilities relating to VAT. Liabilities from the sale of gift certificates are recognized at the value of the anticipated utilization.

Other financial liabilities generally consist of the obligations to reimburse customers of EUR 19,886k (prior year: EUR 24,738k) for expected returns and debitors with credit balances.

The income tax liabilities result from 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 derived indirectly on the basis of the net loss for the year. 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 is essentially attributable to the net loss for the year.

The cash outflows from operating activities include interest paid of EUR 2,548k (prior year: EUR 2,483k), interest received of EUR 392k (prior year: EUR 1,447k) and income taxes paid of EUR 735k (prior year: EUR 610k).

The cash outflow from investing activities mainly results from investments in the logistics infrastructure. These investments focused on the new logistics centers opened in Erfurt and Mönchengladbach. In addition, there were capital expenditures on software and furniture and fixtures.

Cash flow from financing activities concerns cash inflows from the payment of capital increases by the shareholders and by bank loans obtained and repaid, which served to pre-finance the targeted growth and further strengthened the Group’s net asset value.

On the whole, unrestricted cash and cash equivalents increased by EUR 34,854k to EUR 417,161k compared to 31 December 2012.

The freely available cash and cash equivalents comprise cash in banks, cash on hand and short-term bank deposits.

(24) Deferred tax liabilities

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	**31 Dec 2013**	**31 Dec 2012**	**31 Dec 2013**	**31 Dec 2012**	**31 Dec 2013**	**31 Dec 2012**
Intangible assets	7	7	-3,610	-1,386	-3,603	-1,379
Property, plant and equipment	35	0	-601	-299	-566	-299
Inventories	0	0	0	-298	0	-298
Receivables and other assets	247	0	-36	-88	211	-88
Provisions	604	829	0	0	604	829
Liabilities	1,144	10	-154	0	990	10
Special item	19	44	0	0	19	44
Unused tax losses	3,362	1,181	0	0	3,362	1,181
Tax assets/liabilities (-)	**5,418**	**2,071**	**-4,401**	**-2,071**	**1,017**	**0**
Netting	**-4,401**	**-2,071**	**4,401**	**2,071**	**0**	**0**
Recognition of deferred tax assets	**1,017**	**0**	**0**	**0**	**0**	**0**

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

Translation from the German language

(25) Financial instruments

in EUR k	Category* pursuant to IAS 39	Carrying amount as of 31 Dec 2013	Carrying amount as of 31 Dec 2012
Non-current financial assets			
Other financial assets	LaR	48,053	31,684
Current financial assets			
Trade receivables	LaR	87,241	65,595
Other financial assets	LaR	13,454	14,367
Derivative financial instruments designated as hedging instruments	n/a	69	7
Derivative financial instruments not designated as hedging instruments	FAHfT	0	40
Cash and cash equivalents	LaR	417,161	382,307
Non-current financial liabilities			
Financial liabilities	FLAC	16,973	11,100
Other financial liabilities	FLAC	2,948	1,821
Derivative financial instruments designated as hedging instruments	n/a	81	302
Derivative financial instruments not designated as hedging instruments	FLHfT	0	21
Current financial liabilities			
Financial liabilities	FLAC	3,243	3,243
Trade payables	FLAC	410,022	294,624
Other financial liabilities	FLAC	34,946	31,904
Derivative financial instruments designated as hedging instruments	n/a	286	289
Derivative financial instruments not designated as hedging instruments	FLHfT	0	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 fair values of non-current liabilities generally correspond to their carrying amounts. The fair values are calculated with the aid of a simplified DCF method. This qualifies as a level 2 method in the fair value hierarchy.

The carrying amounts of unlisted financial instruments with short remaining terms such as short-term receivables, cash and cash equivalents, and short-term liabilities correspond roughly to their fair values as of the reporting date.

The Zalando Group held forward exchange contracts in US dollars and in pounds sterling 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:

	Nominal value	Market value			Nominal value	Market value
		Assets	Liabilities	Total		
in EUR k	31 Dec 2013	31 Dec 2013	31 Dec 2013	31 Dec 2013	31 Dec 2012	31 Dec 2012
Forward exchange contracts designated as hedging instruments	**17,649**	**69**	**286**	**-217**	**13,483**	**-282**
thereof US dollars	13,915	1	285	-284	13,483	-282
thereof GBP	3,734	68	1	67	0	0
Interest rate swaps designated as hedging instruments	**15,241**	**0**	**81**	**-81**	**10,863**	**-302**
Forward exchange contracts held for trading	**0**	**0**	**0**	**0**	**4,311**	**14**
thereof US dollars	0	0	0	0	4,311	14
thereof GBP	0	0	0	0	0	0
Interest rate swaps not designated as hedging instruments	**0**	**0**	**0**	**0**	**6,619**	**-21**
Total	**32,890**	**69**	**367**	**-298**	**35,276**	**-591**

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 the value of the hedged items.

Translation from the German language

The market values of the interest swaps designated to a hedging relationship are reported in the statement of financial position under other non-current liabilities and assets. Interest swaps that are not designated to a hedging relationship are reported in the statement of financial position under other non-current non-financial liabilities and assets.

The market values of forward exchange contracts designated to a hedging relationship are reported in the statement of financial position under other current financial assets and 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 in the prior year. These did not meet the strict requirements for hedge accounting in IAS 39, but contributed effectively to mitigating the financial risk in terms of risk management. The gains and losses from these forward exchange contracts were recognized in profit or loss. The market values of these forward exchange contracts are reported in the statement of financial position under other current financial assets and liabilities.

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 69k as of the end of the reporting period (prior year: EUR 47k).

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, income from fair value measurement of financial instruments designated as a cash flow hedge of EUR 355k (prior year: expenses of EUR 499k) 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.

in EUR k	from interest	from fair value measurement	Impairment losses/ currency translation/ gain or loss on disposals	Total 2013
Loans and receivables	393	0	-21,988	-21,595
Assets in the categories:				
available for sale	0	0	-10	-10
held for trading	0	-40	0	-40
Liabilities in the categories:				
measured at amortized cost	-2,873	0	1,785	-1,088
held for trading	0	47	0	47
Total	**-2,480**	**7**	**-20,213**	**-22,686**

	from interest	from fair value measurement	Impairment losses/ currency translation/ gain or loss on disposals	Total 2012
Loans and receivables	1,447	0	-24,979	-23,532
Assets in the categories:				
available for sale	0	0	-120	-120
held for trading	0	0	0	0
Liabilities in the categories:				
measured at amortized cost	-3,224	0	0	-3,224
held for trading	0	0	0	0
Total	**-1,777**	**0**	**-25,099**	**-26,876**

Translation from the German language

Fair value hierarchy

As of 31 December 2013, the Group held the financial assets and liabilities presented in the following table, measured at fair value. These financial instruments are classified within a three-level fair value hierarchy.

With regard to financial instruments that are regularly measured at fair value, the Zalando Group determines whether items are reclassified between hierarchy levels. This is determined by reassessing the inputs of the lowest level that is of significance for fair value measurement as of the end of the reporting period.

	31 Dec 2013			31 Dec 2012		
in EUR k	**Level 1**	**Level 2**	**Level 3**	**Level 1**	**Level 2**	**Level 3**
Financial assets measured at fair value						
Derivative financial instruments with hedge relationship (not through profit or loss)	0	69	0	0	7	0
Derivative financial instruments without hedge relationship (through profit or loss)	0	0	0	0	40	0
Financial assets measured at fair value						
Derivative financial instruments with hedge relationship (not through profit or loss)	0	367	0	0	591	0
Derivative financial instruments without hedge relationship (through profit or loss)	0	0	0	0	47	0

In the reporting period, no items were reclassified between level 1 and level 2 and none were reclassified out of or into level 3.

The forward exchange contracts are measured based on observable spot foreign exchange rates and the interest yield curves of the corresponding currencies.

Hedging instruments used to hedge the interest exposure are measured by discounting the future cash flows using a discount rate for instruments of equivalent terms.

I. Other notes

Risks relating to financial instruments and financial risk management

In the course of its ordinary activities, the Zalando Group is exposed to credit risks, liquidity risks and market risks (currency and interest rate risks). The aim of financial risk management is to limit the risks resulting from operating activities through the use of selected derivative and non-derivative hedging instruments. 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 items, as derivatives and hedged items form a unit in terms of their offsetting 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 rates, currency and other price risks.

The currency risk can be broken down into two further types of risk – the transaction risk and the translation risk. The translation risk describes the risk of changes in the items in the statement of financial position and income statement of a subsidiary due to exchange rate changes when translating the 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 hedging transactions. The market values of the hedged items and hedging transactions included are measured at actual exchange rates and sensitivity rates. The difference between these measurements represents the effects on earnings and equity. No sensitivity analysis was performed for the comparative period for reasons of immateriality.

If the euro had been 5% stronger in relation to the foreign currencies as of 31 December 2013, earnings before taxes would have been EUR 2,074k lower (prior year: EUR 2,544k). If the euro had been 5% weaker compared with the exchange rate as of 31 December 2013, earnings before taxes would have been EUR 2,292k (prior year: 2,818k) higher.

The reserve for derivatives in the equity of the Zalando Group would have been EUR 388k lower (prior year: EUR 740k) if the euro had been 5% stronger compared with the exchange rate as of 31 December 2013. If the euro had been 5% weaker, this reserve would have been EUR 432k higher (prior year: EUR 827k).

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 and liabilities from the reverse factoring programs. These risks are partly 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 377k higher (prior year: EUR -31k lower).

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 548k (prior year: EUR 632k).

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 is provided for by portfolio-based valuation allowances based on historical experience and the maturity profile. Uncollectible receivables are written off in full individually.

There is no significant concentration of credit risk.

In addition, 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 one factoring company. Under these agreements, the factor purchases the claims held by the respective supplier against 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 2013 and 31 December 2012 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 2013 and 31 December 2012 respectively. All on-call financial liabilities are always allocated to the earliest possible date.

Translation from the German language

in EUR k	Carrying Amount 31 Dec 2013	Cash flows 2014 Interest	Cash flows 2014 Repay-ments	Cash flows 2015 to 2018 Interest	Cash flows 2015 to 2018 Repay-ments	Cash flows 2019ff Interest	Cash flows 2019ff Repay-ments
Financial liabilities	20,216	759	3,243	1,878	12,178	154	4,795
Trade payables	410,022	299	410,022	0	0	0	0
Other financial liabilities	37,894	0	34,946	0	2,948	0	0
Subtotal	**468,132**	**1,058**	**448,211**	**1,878**	**15,126**	**154**	**4,795**
Liabilities from derivatives	367	0	367	0	0	0	0
Total	**468,499**	**1,058**	**448,578**	**1,878**	**15,126**	**154**	**4,795**

in EUR k	Carrying Amount 31 Dec 2012	Cash flows 2013 Interest	Cash flows 2013 Repay-ments	Cash flows 2014 to 2017 Interest	Cash flows 2014 to 2017 Repay-ments	Cash flows 2018ff Interest	Cash flows 2018ff Repay-ments
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	33,746	0	31,904	0	1,842	0	0
Subtotal	**342,713**	**486**	**329,771**	**842**	**12,942**	**0**	**0**
Liabilities from derivatives	638	0	433	0	205	0	0
Total	**343,351**	**486**	**330,204**	**842**	**13,147**	**0**	**0**

Capital management

The objectives of capital management at the Zalando Group are to ensure short-term solvency and secure an adequate capital base to finance projected growth and a sustained increase in business value. 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 51.0% as of the reporting date (prior year: 55.5%).

Collateral

The Zalando Group pledged financial assets as collateral of EUR 47,443k in the reporting period (prior year: EUR 31,061k). They mainly relate to collateral in connection with lease agreements.

Related party disclosures

Zalando identified the related parties of Zalando AG in accordance with IAS 24.

Zalando had transactions with related parties in the reporting period in the ordinary course of business. The transactions were carried out in accordance with the arm's length principle. The companies with which goods and services are exchanged are classified as other related parties as of the reporting date.

These goods and services transactions result in liabilities to related parties of EUR 112k as of the reporting date (prior year: EUR 0k). The cost of services received in the reporting period is EUR 2,340k (prior year: EUR 1,162k). Assets of EUR 1,880k were ordered from related parties in the reporting period (prior year: EUR 0k). To the extent that these deliveries were based on commodity procurement transactions, they were concluded at customary market rates.

Related parties controlled by Zalando AG are listed in the list of shareholdings.

The members of the management board and supervisory board were identified as related parties of Zalando AG in accordance with the principles included in IAS 24. The management board of Zalando AG is made up as follows:

Corporate boards

Management board member	Profession
Robert Gentz	Management board member
David Schneider	Management board member
Rubin Ritter	Management board member

Translation from the German language

The supervisory board comprises the following persons as of the reporting date:

Supervisory board	Profession
Mia Brunell Livfors (Chair of the supervisory board)	Chief Executive Officer of Investment AB Kinnevik
Lorenzo Grabau (Deputy chair)	Investor, non-executive member of the board of directors of Investment AB Kinnevik
Mikael Larsson	Chief Financial Officer of Investment AB Kinnevik
Alexander Samwer	Entrepreneur
Anders Holch Povlsen	Chief Executive Officer of the Bestseller Group
Martin Weber	General manager and partner of HV Holtzbrinck Ventures Adviser GmbH

The members of the management and supervisory boards only receive remuneration relating to their function as persons in key positions.

The members of management who hold key positions in the Zalando Group received payments totaling EUR 3,282k in the 2013 reporting period (prior year: EUR 4,439k). Of this amount, EUR 2,731k is attributable to share-based payment awards in 2013 (prior year: EUR 3,848k). The expenses for share-based payment awards are calculated using graded vesting, which means that the plan expense gradually becomes smaller over the course of the vesting period. All other remuneration is classified as short-term benefits.

The share-based payments were granted in the 2011 and 2013 reporting periods. 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 H (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 1 and 12 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 18,561k (prior year: EUR 7,764k).

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

in EUR k	less than 1 year	2–5 years	More than 5 years	Total
31 Dec 2013	24,277	62,758	54,083	**141,118**
31 Dec 2012	10,953	16,014	20,833	**47,800**

The future minimum receipts from non-cancelable operating sub-leases are as follows:

in EUR k	less than 1 year	2–5 years	More than 5 years	Total
31 Dec 2013	533	145	0	**678**
31 Dec 2012	63	0	0	**63**

Auditor’s fees

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

- EUR 903k (prior year: EUR 377k) for the audit (separate and consolidated financial statements)
- EUR 198k (prior year: EUR 135k) for other services.

Translation from the German language

Consolidated companies

Zalando AG's direct and indirect shareholdings in its subsidiaries as of 31 December 2013 can be summarized as follows:

		31 Dec 2013 Share in capital	31 Dec 2012 Share in capital
1.	zLabels GmbH, Berlin	100%	100%
2.	Zalando Operations GmbH, Berlin	100%	100%
3.	Zalando S.A.S., Paris, France	100%	100%
4.	Zalando Plc., London, Großbritannien	100%	100%
5.	MyBrands GmbH, Berlin i.L.	100%	100%
6.	Zalando Logistics GmbH & Co. KG, Brieselang	100%	100%
7.	Zalando Customer Service DACH GmbH & Co. KG, Berlin	100%	100%
8.	MyBrands Zalando eProduction GmbH & Co. KG, Berlin	-	100%
9.	Zalando Content Creation GmbH & Co. KG, Erfurt	100%	100%
10.	Zalando S.r.l., Milan, Italy	100%	100%
11.	Zalando Logistics Mönchengladbach GmbH & Co. KG, Mönchengladbach	100%	100%
12.	Kiomi GmbH, Berlin	100%	100%
13.	MyBrands Zalando eStyles GmbH & Co. KG, Berlin	100%	-
14.	Portokali Property Development I GmbH & Co. KG, Berlin	100%	-
15.	Portokali Property Development II GmbH & Co. KG, Berlin	100%	-
16.	Portokali Property Development III GmbH & Co. KG, Berlin	100%	-
17.	zVentures Operations GmbH, Berlin	100%	-
18.	zOutlet Berlin GmbH, Berlin	100%	-
19.	Zalando Customer Service International, GmbH & Co. KG, Berlin	100%	-
20.	zOutlet Frankfurt GmbH, Frankfurt	100%	-

Zalando Operations GmbH (formerly MyBrands Zalando Verwaltungs GmbH), Zalando Plc. (Zalando Ltd), Zalando Logistics GmbH & Co. KG (formerly MyBrands Zalando eLogistics GmbH & Co. KG), Zalando Customer Service DACH GmbH & Co. KG (formerly MyBrands Zalando eStudios GmbH & Co. KG) and Zalando Logistics Mönchengladbach GmbH & Co. KG (formerly MyBrands Zalando eLogistics West GmbH & Co. KG) were renamed in fiscal 2013.

Exercise of Sec. 264b HGB

In accordance with Sec. 264b HGB, the partnerships listed in the Group's shareholdings exercised the exempting clause.

Segment reporting

Reporting on the business segments is in line with the internal reporting. The internal control and reporting corresponds to the principles of financial reporting in accordance with IFRSs as described in section E.

Zalando AG's internal reporting structure is based initially on a sales channel related perspective. The management board monitors the development of the business for the main sales channel Zalando Shop according to a geographical breakdown in the DACH regions (Germany, Austria and Switzerland), northern Europe (Sweden, Finland, Denmark and Norway), southern Europe (France, Italy and Spain), western and eastern Europe (the Netherlands, Belgium, Poland, Luxembourg and the UK). The main sales channel Zalando Shop comprises the revenue for all countries from the sale of shoes, clothing and accessories via the respective country-specific Zalando Portal. The segments, northern Europe, southern Europe, western and eastern Europe were combined into the "Rest of Europe" reporting segment on account of their comparable economic characteristics.

All other sales channels are grouped in the segment "Other". The main portion relates to the revenue from the sales channel Zalando Lounge. The revenue from the Zalando Lounge stems from additional sales campaigns for selected products at discounted prices for registered users. The products sold by the Zalando Group are all allocable to the Fashion product group.

The management board measures the performance of the segments on the basis of the EBIT calculated in accordance with IFRSs. EBIT is defined as earnings before interest and taxes. There are not intersegment transactions in the internal reporting structure. Information on segment assets or liabilities is not available or relevant for decision making.

in EUR k	DACH	Rest of Europe	Other	Total 2013
Revenue	1,056,120	630,190	75,710	1,762,020
Cost of sales	-611,062	-389,068	-46,830	-1,046,960
Gross profit	**445,058**	**241,122**	**28,880**	**715,060**
Selling and distribution costs	-393,768	-306,736	-32,956	-733,460
Administrative expenses	-53,648	-37,181	-14,278	-105,107
Other operating income	9,400	2,948	113	12,461
Other operating expenses	-1,750	-979	-171	-2,900
Earnings before interest and taxes (EBIT)	**5,292**	**-100,825**	**-18,412**	**-113,946**

in EUR k	DACH	Rest of Europe	Other	Total 2012
Revenue	772,998	335,846	49,831	1,158,675
Cost of sales	-405,235	-190,998	-27,598	-623,831
Gross profit	**367,763**	**144,848**	**22,233**	**534,844**
Selling and distribution costs	-330,544	-205,979	-24,156	-560,679
Administrative expenses	-28,467	-23,762	-10,949	-63,178
Other operating income	4,297	1,176	787	6,260
Other operating expenses	-503	-288	-31	-822
Earnings before interest and taxes (EBIT)	**12,546**	**-84,005**	**-12,116**	**-83,575**

Of the total revenue generated in the DACH region, Germany accounts for 72.1% (prior year: 73.6%). In the Other reporting segment, Germany accounts for 57.8% of the total revenue (prior year: 79.0%). The non-current assets of the Zalando Group are located in Germany.

Subsequent events

The chairwoman of the supervisory board, Mia Brunell Livfors and Mikael Larsson resigned from the board on 10 February 2014. Cristina Stenbeck and Lothar Lanz were appointed to the supervisory board on 10 February 2014. Cristina Stenbeck was appointed chairwoman of the supervisory board by resolution dated 13 February 2014.

There were no other significant events after the end of the fiscal year which could materially affect the presentation of the results of operations, financial position and net assets of the Group.

Authorization of the financial statements for issue

The consolidated financial statements and group management report of Zalando AG are published in the Bundesanzeiger (German Federal Gazette). The consolidated financial statements and the group management report were authorized for issue by management on 3 March 2014.

Berlin, 3 March 2014

The management board

Robert Gentz	David Schneider	Rubin Ritter