

# HALF-YEAR REPORT

JANUARY – JUNE 2016



# ZALANDO AT A GLANCE

## KEY FIGURES

	APR 1– JUN 30, 2016	APR 1– JUN 30, 2015	JAN 1– JUN 30, 2016	JAN 1– JUN 30, 2015
<b>Group key performance indicators</b>				
Site visits (in millions)	480.2	411.8	959.7	804.6
Mobile visit share (in %)	64.7	56.6	63.5	54.7
Active customers (in millions)	18.8	16.4	18.8	16.4
Number of orders (in millions)	17.5	14.0	33.2	26.0
Average orders per active customer	3.3	2.9	3.3	2.9
Average basket size (in EUR)	66.2	67.4	66.4	67.7
Adjusted marketing cost ratio (in % of revenue)	10.5	12.0	10.5	11.9
Adjusted fulfillment cost ratio (in % of revenue)	23.1	28.3	23.6	26.6
<b>Results of operations</b>				
Revenue (in EUR m)	916.4	733.0	1,712.6	1,376.6
EBIT (in EUR m)	77.2	25.7	93.6	50.8
EBIT (in % of revenue)	8.4	3.5	5.5	3.7
Adjusted EBIT (in EUR m)	80.9	30.2	101.2	59.2
Adjusted EBIT (in % of revenue)	8.8	4.1	5.9	4.3
<b>Financial position</b>				
Net working capital (in EUR m)	-65.5	-2.6*	-65.5	-2.6*
Equity ratio (in % of total liabilities)	60.5	60.1*	60.5	60.1*
Cash flow from operating activities (in EUR m)	156.9	35.0	147.7	23.3
Cash flow from investing activities (in EUR m)	-62.7	-25.4	-87.3	-108.0
Cash and cash equivalents (in EUR m)	1,035.9	973.5	1,035.9	973.5
<b>Other</b>				
Employees (as of the reporting date)	10,639	9,987*	10,639	9,987*
Basic earnings per share (in EUR)	0.21	0.09	0.22	0.19

\*} As of Dec 31, 2015

## OTHER FACTS Q2 2016

**25.0%**

SALES GROWTH COMPARED TO Q2 2015

**18.8M**

ACTIVE CUSTOMERS

EUR **77.2M**

EBIT

**64.7%**

OF SITE VISITS VIA MOBILE DEVICES

# CONNECTING PEOPLE AND FASHION

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EASY NAVIGATION MENU



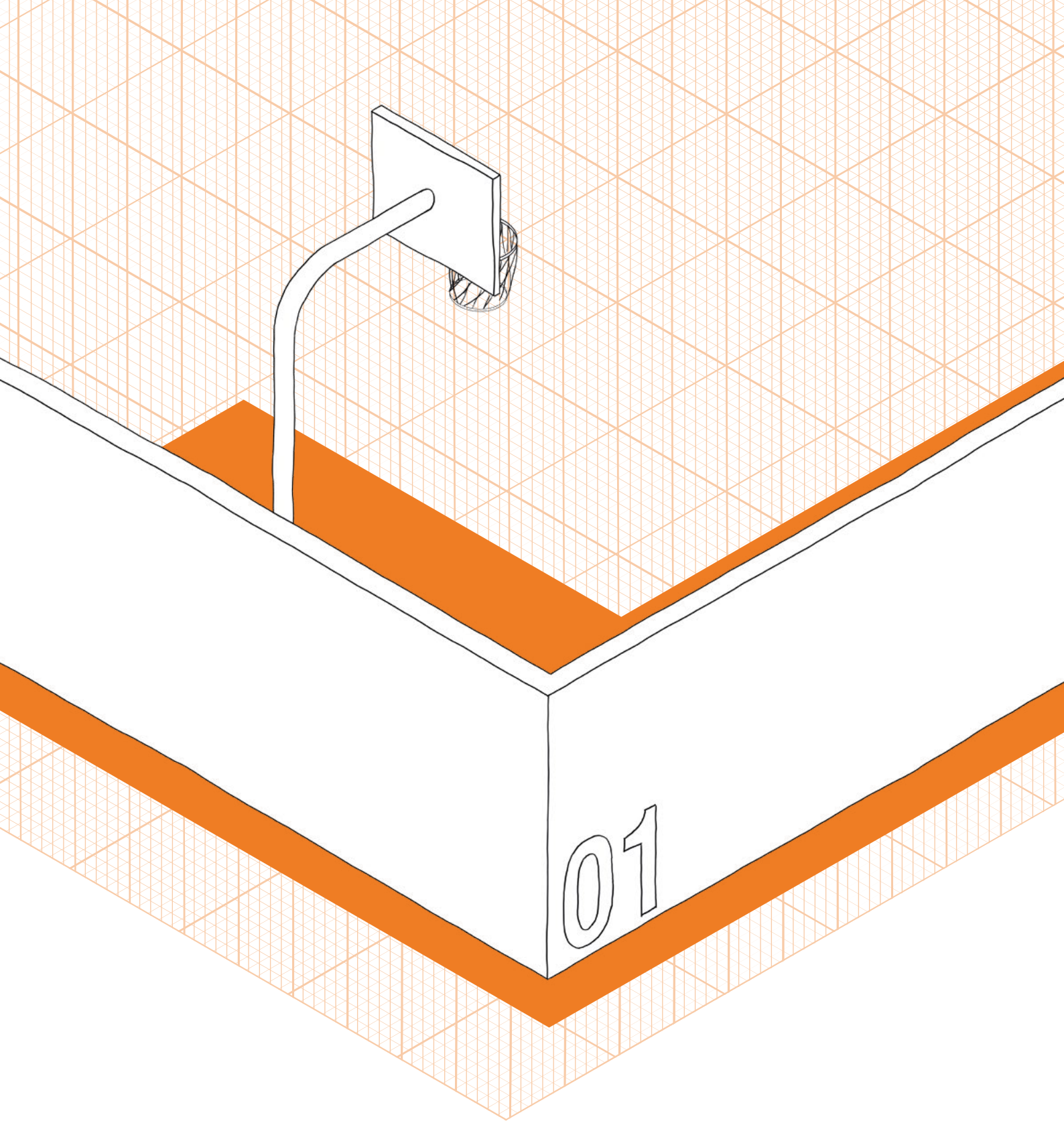
FURTHER INFORMATION  
IN THE REPORT



FURTHER INFORMATION  
ON THE INTERNET



FOR THE  
QUICK READER



2/4 2016

# INTERIM GROUP MANAGEMENT REPORT

OTHER FACTS

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FOCUS ON **4**

DIMENSIONS OF CUSTOMER PROPOSITION

**24.4%**

CONSIDERABLE RISE OF REVENUE COMPARED TO HY 2015

## 01.1 BACKGROUND TO THE GROUP

The statements made in the annual report 2015 on the business model, the group structure, the strategy and objectives of the group, the management system, and on research and development and sustainability in the Zalando group still apply at the time this interim report was issued for publication.

## 01.2 REPORT ON ECONOMIC POSITION

### 01.2.1 MACROECONOMIC AND SECTOR-SPECIFIC ENVIRONMENT

In Germany, the internet retail segment continues to grow at a faster pace compared to the overall retail sector. In 2015, the internet retailing market size increased by 12.6% compared to 2014, while the total retail sector only saw a 1.7% increase. For the German fashion trade sector in particular, the gap between online and overall market growth is also comparatively wide. An 8.4% annual increase of revenue in the online fashion sector compared with a moderate 0.4% increase in the overall fashion sector suggests that a significant percentage of fashion retail shifted from offline to online in 2015.<sup>1</sup>

Initial reactions from the German fashion sector concerning the development of the second quarter of 2016 suggest no major turnaround following the weak performance seen in the first quarter. According to the Textilwirtschaft journal, the total fashion trade in the second quarter declined by 1% compared with the corresponding prior-year period. Although April witnessed a 2% year-on-year increase, overall rainy weather dampened the sale of summer fashion products throughout the remaining quarter.<sup>2</sup> According to the current sales data from GfK for the German market, online fashion retail by contrast recorded increasing sales in every month of the second quarter, especially in May and June, with distinct differences in terms of annual growth rates.<sup>3</sup>

As a result of continuing strong growth in online fashion, we see **growing market opportunities** for our business model:

- We anticipate that the share of fashion sold online will continue to grow in comparison to fashion sold in brick-and-mortar stores.
- Mobile commerce has significantly contributed to the strong growth of online retail, providing consumers with conveniences to access products anywhere anytime. In Europe, mobile internet sales rose from EUR 3.8bn in 2011 to EUR 46.5bn in 2015. We expect the mobile market to continue to grow in the coming years.<sup>4</sup>
- The fashion category is expected to remain at the higher end of profitability within overall online retail. Online fashion retailers can typically generate gross margins of 40% to 60%<sup>5</sup>, considerably higher than those of online retailers in other consumer product categories, e.g., electronics.



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SKIP TO P. 6

1) Euromonitor International  
2) Textilwirtschaft  
3) Gesellschaft für Konsumforschung  
4) Euromonitor International; Europe excl. Russia; excl. VAT  
5) Based on latest full-year public reporting of selected fashion companies

## 01.2.2 FINANCIAL PERFORMANCE OF THE GROUP



**FURTHER INFORMATION**  
**CONSOLIDATED STATEMENT**  
**OF COMPREHENSIVE INCOME**  
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In the reporting period, the condensed consolidated income statement for the second quarter of 2016 shows **strong revenue growth** compared to the corresponding prior-year period. The operating leverage of our business developed strongly while we continued to push forward with growth investments in our customer proposition and platform initiatives. As the operating leverage overcompensated for our investments, our business showed continued profitability with an improved EBIT margin.

### 01 HALF-YEAR CONSOLIDATED INCOME STATEMENT

IN EUR M	JAN 1– JUN 30, 2016	AS % OF REVENUE	JAN 1– JUN 30, 2015	AS % OF REVENUE	CHANGE
Revenue	1,712.6	100.0%	1,376.6	100.0%	0.0pp
Cost of sales	–945.9	–55.2%	–732.0	–53.2%	–2.1pp
<b>Gross profit</b>	<b>766.7</b>	<b>44.8%</b>	<b>644.6</b>	<b>46.8%</b>	<b>–2.1pp</b>
Selling and distribution costs	–587.1	–34.3%	–534.2	–38.8%	4.5pp
Administrative expenses	–89.5	–5.2%	–60.8	–4.4%	–0.8pp
Other operating income	5.0	0.3%	5.2	0.4%	–0.1pp
Other operating expenses	–1.4	–0.1%	–4.0	–0.3%	0.2pp
<b>Earnings before interest and taxes (EBIT)</b>	<b>93.6</b>	<b>5.5%</b>	<b>50.8</b>	<b>3.7%</b>	<b>1.8pp</b>



SKIP TO P. 8

### 02 HALF-YEAR OTHER CONSOLIDATED FINANCIAL INFORMATION

IN EUR M	JAN 1– JUN 30, 2016	JAN 1– JUN 30, 2015	CHANGE
EBIT margin (as % of revenue)	5.5%	3.7%	1.8pp
Adjusted EBIT (excl. equity-settled share-based payments)	101.2	59.2	42.0
Adjusted EBIT margin (as % of revenue)	5.9%	4.3%	1.6pp
EBITDA	112.8	66.3	46.5
Adjusted EBITDA (excl. equity-settled share-based payments)	120.4	74.7	45.6

## 03 SECOND QUARTER CONSOLIDATED INCOME STATEMENT

IN EUR M	APR 1– JUN 30, 2016	AS % OF REVENUE	APR 1– JUN 30, 2015	AS % OF REVENUE	CHANGE
Revenue	916.4	100.0%	733.0	100.0%	0.0pp
Cost of sales	-483.2	-52.7%	-378.5	-51.6%	-1.1pp
<b>Gross profit</b>	<b>433.3</b>	<b>47.3%</b>	<b>354.5</b>	<b>48.4%</b>	<b>-1.1pp</b>
Selling and distribution costs	-310.0	-33.8%	-297.4	-40.6%	6.7pp
Administrative expenses	-48.9	-5.3%	-31.7	-4.3%	-1.0pp
Other operating income	3.5	0.4%	2.2	0.3%	0.1pp
Other operating expenses	-0.7	-0.1%	-2.0	-0.3%	0.2pp
<b>Earnings before interest and taxes (EBIT)</b>	<b>77.2</b>	<b>8.4%</b>	<b>25.7</b>	<b>3.5%</b>	<b>4.9pp</b>

## 04 SECOND QUARTER OTHER CONSOLIDATED FINANCIAL INFORMATION

IN EUR M	APR 1– JUN 30, 2016	APR 1– JUN 30, 2015	CHANGE
EBIT margin (as % of revenue)	8.4%	3.5%	4.9pp
Adjusted EBIT (excl. equity-settled share-based payments)	80.9	30.2	50.8
Adjusted EBIT margin (as % of revenue)	8.8%	4.1%	4.7pp
EBITDA	87.3	33.7	53.6
Adjusted EBITDA (excl. equity-settled share-based payments)	91.0	38.1	52.9

## 05 KEY PERFORMANCE INDICATORS

PERFORMANCE INDICATORS*	APR 1– JUN 30, 2016	APR 1– JUN 30, 2015	CHANGE	JAN 1– JUN 30, 2016	JAN 1– JUN 30, 2015	CHANGE
Site visits (in millions)	480.2	411.8	16.6%	959.7	804.6	19.3%
Mobile visit share (as % of site visits)	64.7	56.6	8.1pp	63.5	54.7	8.8pp
Active customers (in millions)	18.8	16.4	15.0%	18.8	16.4	15.0%
Number of orders (in millions)	17.5	14.0	25.3%	33.2	26.0	27.5%
Average orders per active customer	3.3	2.9	14.7%	3.3	2.9	14.7%
Average basket size (in EUR)	66.2	67.4	–1.7%	66.4	67.7	–2.0%
Revenue (in EUR m)	916.4	733.0	25.0%	1,712.6	1,376.6	24.4%
Adjusted fulfillment cost ratio (as % of revenue)	23.1	28.3	–5.1pp	23.6	26.6	–3.0pp
Adjusted marketing cost ratio (as % of revenue)	10.5	12.0	–1.5pp	10.5	11.9	–1.4pp
Fulfillment cost ratio (as % of revenue)	23.2	28.4	–5.2pp	23.7	26.8	–3.1pp
Marketing cost ratio (as % of revenue)	10.6	12.1	–1.6pp	10.6	12.0	–1.4pp
EBIT (in EUR m)	77.2	25.7	>100%	93.6	50.8	84.3%
EBIT margin (as % of revenue)	8.4	3.5	4.9pp	5.5	3.7	1.8pp
Adjusted EBIT (in EUR m)	80.9	30.2	>100%	101.2	59.2	70.9%
Adjusted EBIT (as % of revenue)	8.8	4.1	4.7pp	5.9	4.3	1.6pp
EBITDA (in EUR m)	87.3	33.7	>100%	112.8	66.3	70.1%
Adjusted EBITDA (in EUR m)	91.0	38.1	>100%	120.4	74.7	61.1%
Net working capital (in EUR m)	–65.5	–2.6**	>100%	–65.5	–2.6**	>100%
Cash flow from operating activities (in EUR m)	156.9	35.0	>100%	147.7	23.3	>100%

\*] For an explanation of the performance indicators please refer to the glossary

\*\*] As of Dec 31, 2015



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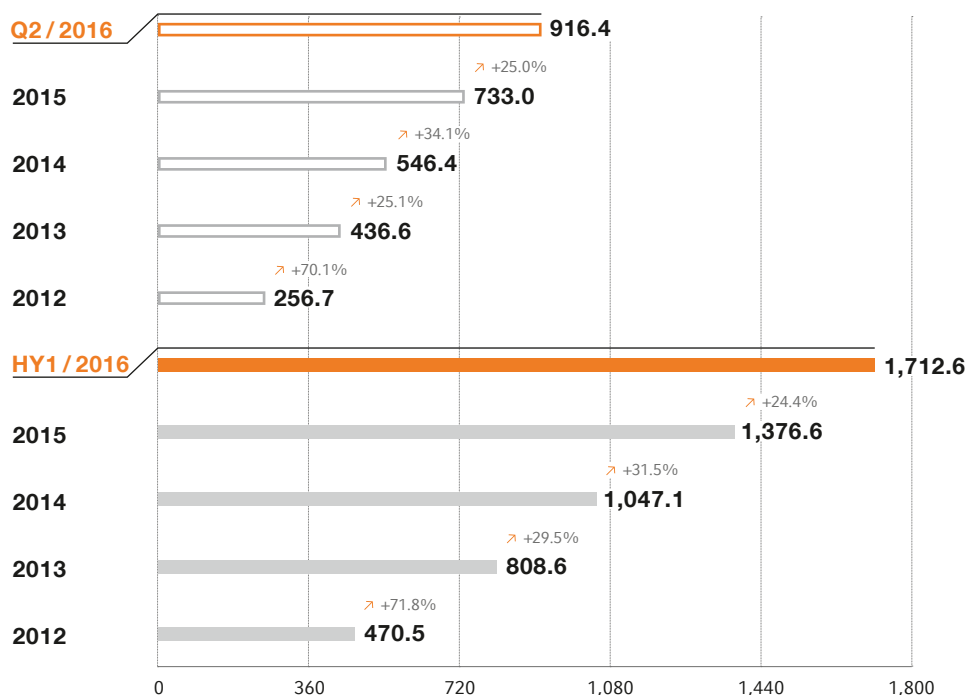
Zalando's key performance indicators are revenue, EBIT, EBIT margin, average basket size and the number of orders.

#### DEVELOPMENT OF REVENUE

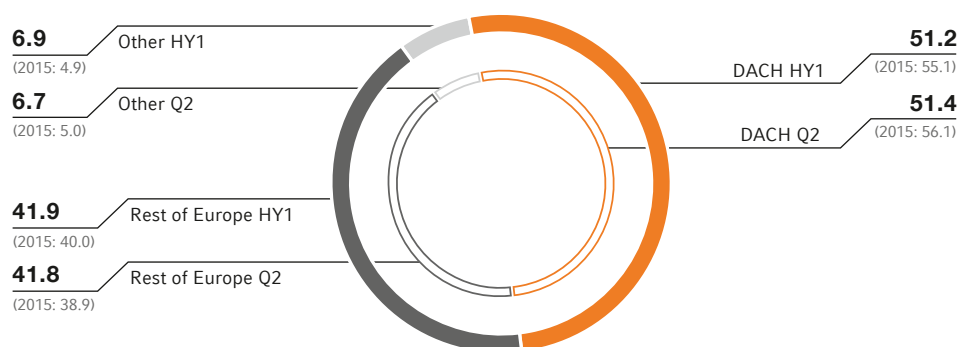
Zalando achieved strong growth and thus delivered on its ambitious target. In the second quarter of 2016, Zalando increased its revenue by EUR 183.5m from EUR 733.0m to EUR 916.4m compared to the prior-year period. This corresponds to year-on-year revenue growth of 25.0%.



01 SECOND QUARTER/HALF-YEAR REVENUE 2012–2016 (IN EUR M)



02 SECOND QUARTER/HALF-YEAR REVENUE BY SEGMENTS 2016 IN % (2015 IN %)



The increase in revenue can be primarily attributed to a **larger customer base** as well as an **increase in average orders** per active customer. As of June 30, 2016, the group had 18.8 million active customers compared to 16.4 million active customers as of June 30, 2015. This corresponds to an increase of 15.0%. The larger customer base ordered more frequently compared to the corresponding prior-year period. Specifically, the average number of orders per active customer increased by 14.7%. The average basket size decreased slightly to EUR 66.2 (prior year: EUR 67.4).

The higher number of orders was also driven by a higher conversion rate of site visits into orders. In the second quarter, site visits rose by 16.6% with orders increasing by 25.3%. This resulted in a conversion rate of 3.7% (prior year: 3.4%). At the same time, the share of site visits on mobile devices increased by 8.1 percentage points compared to the corresponding prior-year period to 64.7% (prior year: 56.6%).

Specifically, Zalando **invested across four dimensions**: its brand, the fashion assortment, its mobile proposition, and convenience aspects. In essence, the revenue growth of the second quarter was driven by our continued focus on improving the customer proposition and is clearly apparent in our good sell-through rate for the current spring/summer collection.

The development in the first six months of 2016 can be described as follows: Revenue shows a considerable 24.4% rise to EUR 1,712.6m (prior year: EUR 1,376.6m) compared to the corresponding prior-year period, driven by the four aforementioned dimensions of customer proposition investments.

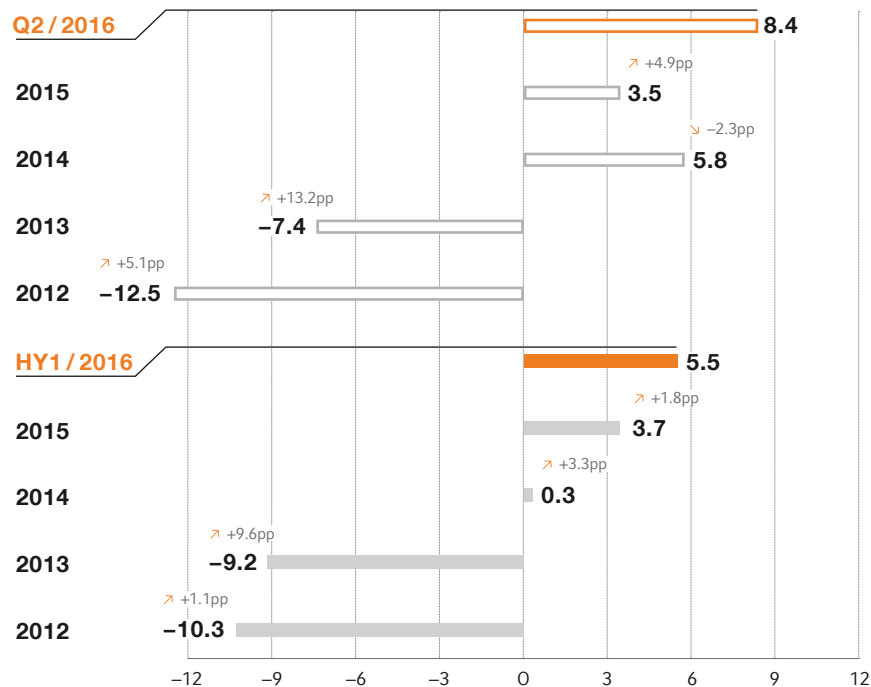


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#### DEVELOPMENT OF EBIT

The group recorded EBIT of EUR 77.2m in the second quarter of 2016 (prior year: EUR 25.7m), which corresponds to an EBIT margin of 8.4% (prior year: 3.5%) and represents an improvement of 4.9 percentage points.

#### 03 SECOND QUARTER/HALF-YEAR EBIT MARGIN 2012–2016 (IN %)



Cost of sales rose by 27.7% from EUR 378.5m to EUR 483.2m resulting in a decrease in the gross margin of 1.1 percentage points from 48.4% to 47.3%.

The second quarter of 2016 showed **good development in terms of the gross margin** with Zalando's major operational indicators, such as sell-through and total discount rate, roughly in line with prior year levels. The group discount rate was nevertheless slightly higher due to the higher share of Lounge business relative to the prior-year period. Changes in exchange rates had a small negative impact on the gross margin as well. However, economies of scale from continued negotiation successes with brand partners partially offset these effects.

Selling and distribution costs rose by 4.2% from EUR 297.4m to EUR 310.0m. This corresponds to an improvement as a percentage of revenue of 6.7 percentage points from 40.6% to 33.8%. Selling and distribution costs consist of fulfillment and marketing costs.

The fulfillment cost ratio as a percentage of revenue decreased in the second quarter of 2016 by 5.2 percentage points in comparison to the prior-year period. The decrease in the fulfillment cost ratio is primarily attributable to lower payment costs, as last year's fulfillment costs had been negatively influenced by allowances for fraudulent receivables. Zalando has since continued to optimize and improve its steering of payment options as well as the monitoring of fraudulent activities, resulting in lower allowances on trade receivables. At the same time, we continued to see operating leverage across the other components of the fulfillment cost line while Zalando continued to push forward with fulfillment investments both in the customer proposition and platform initiatives.

In the second quarter of 2016, marketing costs rose in absolute terms by EUR 8.1m to EUR 97.0m compared to the prior-year period due to selected brand marketing campaigns such as the co-branded Ivy Park campaign, and due to the increased business volume in general. However, relative to revenue, marketing costs decreased by 1.6 percentage points resulting from efficiency gains in particular within performance marketing.

Compared to the prior-year period, administration costs increased by EUR 17.3m from EUR 31.7m to EUR 48.9m in the second quarter of 2016. The increase results mainly from higher headcount (in the technology department in particular) and the associated office expenses.

The development in the first six months of 2016 can be described as follows: The EBIT margin as a percentage of revenue improved by 1.8 percentage points from 3.7% in the first half of 2015 to 5.5% in the first half 2016. This increase mainly resulted from lower selling and distribution ratio. As a percentage of revenue, these costs decreased from 38.8% in the first half of 2015 to 34.3% in the first half of 2016 mainly as a result of continued operating leverage in both fulfillment and marketing, plus the non-recurring nature of allowances for fraudulent receivables recorded in 2015.



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### ADJUSTED EBIT

In order to assess the operating performance of the business, Zalando's management also considers adjusted EBIT and the adjusted EBIT margin before expenses for equity-settled share-based payments.

In the second quarter of 2016, Zalando generated adjusted EBIT of EUR 80.9m (prior year: EUR 30.2m), which translates into an adjusted EBIT margin of 8.8% (prior year: 4.1%). As expenses from equity-settled share-based payments remained fairly stable when compared to the prior-year period, the increase in adjusted EBIT and the adjusted EBIT margin stemmed almost exclusively from the aforementioned drivers.

EBIT includes the following expenses from equity-settled share-based payments. More information can be found in the notes to the annual financial statements 2015 (section 03.5.7 (20.)).

### 06 SHARE-BASED COMPENSATION EXPENSES PER FUNCTIONAL AREA

IN EUR M	APR 1– JUN 30, 2016	APR 1– JUN 30, 2015	CHANGE	JAN 1– JUN 30, 2016	JAN 1– JUN 30, 2015	CHANGE
<b>Expenses for equity-settled share-based payments</b>	<b>3.7</b>	<b>4.4</b>	<b>-0.7</b>	<b>7.5</b>	<b>8.4</b>	<b>-0.9</b>
Cost of sales	0.9	1.1	-0.2	1.9	2.1	-0.2
Selling and distribution costs	1.9	2.2	-0.4	3.8	4.2	-0.4
thereof marketing costs	0.9	1.1	-0.2	1.9	2.1	-0.2
thereof fulfillment costs	0.9	1.1	-0.2	1.9	2.1	-0.2
Administrative expenses	0.9	1.1	-0.2	1.9	2.1	-0.2

### 01.2.3 RESULTS BY SEGMENT

The condensed segment results for the second quarter of 2016 show a **significant improvement in revenue across all segments**. EBIT increased in the DACH and Rest of Europe segments, while the Other segment showed a decrease in EBIT compared to the prior-year period.



SKIP TO P. 15

#### 07 CONSOLIDATED SEGMENT RESULTS

IN EUR M	APR 1– JUN 30, 2016	APR 1– JUN 30, 2015	CHANGE	JAN 1– JUN 30, 2016	JAN 1– JUN 30, 2015	CHANGE
<b>Revenue</b>						
DACH	471.4	411.0	60.4	877.3	758.1	119.1
Rest of Europe	383.2	285.3	97.9	717.7	550.3	167.4
Other	61.8	36.6	25.2	117.6	68.1	49.5
<b>Earnings before interest and taxes (EBIT)</b>						
DACH	63.8	11.9	51.9	101.1	42.1	59.1
Rest of Europe	14.4	9.7	4.7	-4.1	3.4	-7.5
Other	-1.0	4.1	-5.1	-3.4	5.3	-8.8
<b>Other segment financial information</b>						
Adjusted EBIT DACH	65.7	14.4	51.2	105.0	46.8	58.2
Adjusted EBIT Rest of Europe	15.9	11.3	4.6	-1.1	6.6	-7.7
Adjusted EBIT Other	-0.6	4.4	-5.0	-2.7	5.8	-8.5

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

#### 08 SHARE-BASED COMPENSATION EXPENSES PER SEGMENT

IN EUR M	APR 1– JUN 30, 2016	APR 1– JUN 30, 2015	CHANGE	JAN 1– JUN 30, 2016	JAN 1– JUN 30, 2015	CHANGE
<b>Equity-settled share-based payment expenses</b>	<b>3.7</b>	<b>4.4</b>	<b>–0.7</b>	<b>7.5</b>	<b>8.4</b>	<b>–0.9</b>
DACH	1.9	2.5	–0.6	3.8	4.7	–0.9
Rest of Europe	1.5	1.6	–0.2	3.0	3.2	–0.2
Other	0.3	0.3	0.1	0.7	0.5	0.3

#### SEGMENT DEVELOPMENT FOR THE QUARTER

Zalando's strong increase in revenue was generated across all segments, thereby further expanding its market position across its segments.

In the second quarter of 2016, revenue in the DACH segment grew by 14.7%, by 34.3% in the Rest of Europe segment and by 68.9% in the Other segment, compared to the prior-year period. The **core DACH segment continued to generate the highest absolute level of revenue**, followed by the Rest of Europe segment.

With an increase in the EBIT margin of 10.6 percentage points to 13.5%, the DACH segment showed strong profitability in the second quarter of 2016. The increase primarily results from lower allowances on trade receivables relative to revenue and operating leverage including fulfillment and marketing costs. Zalando improved the EBIT margin in the Rest of Europe segment by 0.4 percentage points from 3.4% to 3.8% mainly due to increased fulfillment and marketing efficiency. The Other segment recorded a decrease of 12.8 percentage points, resulting in an EBIT margin of –1.6% in the second quarter of 2016. The negative development is mainly a result of the ramp-up of the platform investments as well as the Zalando Lounge product mix.

#### SEGMENT DEVELOPMENT FOR THE FIRST SIX MONTHS

In the first half of 2016, group revenue increased by 24.4% from EUR 1,376.6m in the corresponding prior-year period to EUR 1,712.6m.

In the DACH segment, the strongest segment in terms of revenue, revenue rose by 15.7% in the first six months of 2016 compared to the corresponding prior-year period. In the Rest of Europe segment, revenue grew 30.4%. Zalando's revenue growth in the Other segment was especially strong with 72.6%. Apparel remained the largest product category in terms of revenue in the first six months of 2016.

The EBIT margin in the DACH segment improved from 5.5% in the first six months of 2015 to 11.5% in the first six months of 2016. This significant increase mainly results from lower allowances on trade receivables and operating leverage including fulfillment and marketing costs. EBIT margin for the Rest of Europe segment declined slightly by 1.2 percentage points to –0.6% for the six-month period ended June 30, 2016 mainly due to higher discounts and currency translation effects. The EBIT margin in the Other segment decreased from 7.8% in the first six months of 2015 to –2.9% in the first six months of 2016 mainly from the ramp-up of the platform investments as well as the Zalando Lounge product mix.

**ADJUSTED EBIT**

In order to assess the operating performance of the segments, Zalando's management also considers adjusted EBIT and the adjusted EBIT margin before expenses for equity-settled share-based payments.

The DACH segment generated an adjusted EBIT margin of 13.9% in the second quarter of 2016, which translates into an increase of 10.4 percentage points when compared to the prior-year period. The Rest of Europe segment recorded a rise of 0.2 percentage points in the adjusted EBIT margin compared to 4.0% in the prior-year period. The Other segment generated an adjusted EBIT margin of -1.0% in the first half of 2016, representing a decline of 13.0 percentage points. As expenses from equity-settled share-based payments, as well as their distribution across segments, remained fairly stable when compared to the prior-year period, the development in adjusted EBIT and adjusted EBIT margin resulted almost exclusively from the aforementioned drivers described for unadjusted EBIT.

**01.2.4 CASH FLOWS**

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

**09 CONDENSED STATEMENT OF CASH FLOWS**

IN EUR M	APR 1– JUN 30, 2016	APR 1– JUN 30, 2015	JAN 1– JUN 30, 2016	JAN 1– JUN 30, 2015
<b>Cash flow from operating activities</b>	<b>156.9</b>	<b>35.0</b>	<b>147.7</b>	<b>23.3</b>
<b>Cash flow from investing activities</b>	<b>-62.7</b>	<b>-25.4</b>	<b>-87.3</b>	<b>-108.0</b>
<b>Cash flow from financing activities</b>	<b>-0.3</b>	<b>3.2</b>	<b>-1.1</b>	<b>3.9</b>
Change in cash and cash equivalents	93.9	12.8	59.2	-80.8
Exchange-rate-related and other changes in cash and cash equivalents	0.8	-0.2	0.4	3.4
Cash and cash equivalents at the beginning of the period	941.2	960.9	976.2	1,051.0
<b>Cash and cash equivalents as of Jun 30</b>	<b>1,035.9</b>	<b>973.5</b>	<b>1,035.9</b>	<b>973.5</b>

Zalando generated a **positive cash flow** from operating activities of EUR 156.9m in the second quarter of 2016 (prior-year period: EUR 35.0m).

In addition to the improvement in net income (which rose from EUR 23.0m in the prior-year period to EUR 50.9m in the reporting period), the positive cash flow development from operating activities was driven by cash inflows from declining net working capital.

The positive cash flow from net working capital was mainly due to declining inventories, also indicating the strong sell-through rate. The higher business volume did not result in payables on the same scale due to improved payment behavior, also supported by an extended availability and utilization of reverse factoring lines.



**FURTHER INFORMATION**  
CONSOLIDATED STATEMENT  
OF CASH FLOWS P. 26



**SKIP TO P. 16**

The cash flow from investing activities amounts to EUR 62.7m and primarily represents investments in the logistics infrastructure of EUR 29.6m, relating primarily to the fulfillment centers in Mönchengladbach and Lahr as well as investments in internally developed software of EUR 13.9m. An amount of EUR 28.3m was invested in corporate acquisitions. One of these acquisitions was Tradebyte Software GmbH, Ansbach, Germany. Zalando acquired Tradebyte Software GmbH in May 2016 to strengthen its ability to digitalize partner stock and connect it to retail channels. Tradebyte is among the leading European providers of marketplace supply-side integration solutions for retailers and brands, especially in the fashion and lifestyle sectors.

The free cash flow increased by EUR 72.3m, from EUR 11.9m in the prior-year period to EUR 84.2m in the second quarter of 2016, mainly driven by the aforementioned net working capital and investing activities.

Aggregate cash and cash equivalents increased by EUR 94.7m in the second quarter, resulting in Zalando carrying cash and cash equivalents of EUR 1,035.9m as of June 30, 2016.



FURTHER INFORMATION  
CONSOLIDATED STATEMENT  
OF FINANCIAL POSITION P.22

## 01.2.5 FINANCIAL POSITION

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

### 10 ASSETS

IN EUR M	JUN 30, 2016		DEC 31, 2015		CHANGE	
Non-current assets	323.4	14.7%	253.1	12.0%	70.4	27.8%
Current assets	1,878.6	85.3%	1,863.5	88.0%	15.1	0.8%
<b>Total assets</b>	<b>2,202.0</b>	<b>100.0%</b>	<b>2,116.5</b>	<b>100.0%</b>	<b>85.5</b>	<b>4.0%</b>

### 11 EQUITY AND LIABILITIES

IN EUR M	JUN 30, 2016		DEC 31, 2015		CHANGE	
Equity	1,332.5	60.5%	1,271.4	60.1%	61.2	4.8%
Non-current liabilities	29.0	1.3%	31.3	1.5%	-2.3	-7.5%
Current liabilities	840.5	38.2%	813.8	38.5%	26.6	3.3%
<b>Total equity and liabilities</b>	<b>2,202.0</b>	<b>100.0%</b>	<b>2,116.5</b>	<b>100.0%</b>	<b>85.5</b>	<b>4.0%</b>



SKIP TO P. 18

In the first half of 2016, Zalando's total assets increased slightly by 4.0%. The statement of financial position is dominated by working capital, cash and cash equivalents, and equity.

In the first half of 2016, additions to intangible assets amounted to EUR 46.9m (prior year: EUR 7.9m) and additions to property, plant and equipment totaled EUR 50.0m (prior year: EUR 1.1m), mainly relating to the fulfillment centers in Mönchengladbach and Lahr.

Inventories almost exclusively comprise merchandise for Zalando's core business. The slight 9.8% decrease in inventories to EUR 445.3m resulted from the **good sell-through** of the spring/summer collection and **enhanced steering** of inbound deliveries.



Trade and other receivables as reported on June 30, 2016 are all current. The small increase from EUR 149.7m to EUR 164.4m is primarily attributable to the higher volume in business.

In the first half of 2016, equity rose from EUR 1,271.4m to EUR 1,332.5m. The EUR 61.2m increase primarily stems from the net income for the period. Consequently, the equity ratio rose from 60.1% at the beginning of the year to 60.5% as of June 30, 2016.

Current liabilities increased by EUR 26.6m in the reporting period. This increase is mainly attributable to trade payables and similar liabilities, which rose by EUR 29.5m, increasing from EUR 645.8m to EUR 675.3m, mainly due to the delivery of goods. Under reverse factoring agreements, suppliers' claims against Zalando totaling EUR 223.3m as of June 30, 2016 were transferred to various factoring providers (December 31, 2015: EUR 170.9m). These items were recognized in the statement of financial position under trade payables and similar liabilities.

#### OVERALL ASSESSMENT

The Management Board views the business development in the first two quarters of 2016 as very positive. As planned, the Zalando group increased its revenue strongly and gained additional market share. The EBIT margin increased substantially as a result of the strong performance of the underlying business. In view of the high operating leverage, Zalando continued to push forward with growth investments into its customer proposition and platform initiatives. Overall, Zalando can look back on a **very successful first half** of 2016.

### 01.2.6 EMPLOYEES

The **headcount increased significantly** by 652 to 10,639 employees as of June 30, 2016, compared to 9,987 employees as of December 31, 2015. The significant growth was primarily driven by increasing the headcount in technology and operations.

## 01.3 SUBSEQUENT EVENTS

No significant events occurred subsequent to the reporting date which could materially affect the presentation of the financial performance and position of the group.

## 01.4 RISK AND OPPORTUNITY REPORT

There are no significant changes compared to the risk and opportunity report contained in the 2015 annual report. There are still no discernible risks that could jeopardize Zalando's ability to continue as a going concern.

## 01.5 OUTLOOK

### 01.5.1 FUTURE MACROECONOMIC AND INDUSTRY-SPECIFIC SITUATION



SKIP TO P. 19

According to the European Commission, German economic growth will remain stable with domestic demand, notably private consumption, as the main growth driver. It is expected that the gross domestic product will increase by 1.6% in both 2016 and 2017. Further growth in employment and wages should support private consumption. Notwithstanding this, the British vote to leave the EU contains economic and political uncertainties, which could affect private consumption, investment growth, and foreign trade also in the near term, mainly in the UK, but also in other member states.<sup>6</sup>

The German economy, especially with its steady demand for consumer products, is providing a robust environment for the retail industry. The Macroeconomic Policy Institute expects that private consumption expenditure will continue to contribute to more than half of GDP growth in 2016, giving an encouraging outlook for retailers.<sup>7</sup>

Internet trade is expected to continue to see more dynamic growth than the overall retail sector. For instance, the European retail industry is expected to achieve year-on-year growth of around 1.2% in 2016, while an increase of about 10.6% is expected in online trade. The picture in Germany is similar: the overall forecast for retail growth is 1.0% in 2016; by comparison, internet trade is expected to increase by 11.4% in the same period.<sup>8</sup> The Federal Association of E-Commerce and Distance Retail Germany (bevh) forecast corresponds with this result, anticipating an 11.9% increase in online trade revenue in 2016.<sup>9</sup> The positive growth in European online trade is expected to continue through the next years. Although slightly slower momentum is expected, a compound annual growth rate (CAGR) of 8.8% for the period 2016 to 2020 will still provide substantial opportunities for e-commerce retailers.<sup>10</sup>

The online fashion industry in Europe and Germany is also predicted to grow further. Revenue at the European level is expected to grow around 9.6%, while revenue is expected to increase 9.1% in Germany in 2016. Experts identified apparel and footwear as the main drivers for e-commerce growth, therefore we expect the online share of fashion trade to continue to grow in 2016.<sup>11</sup>

Thanks to its wide brand awareness among European consumers, large customer base, strong supplier relationships and infrastructure footprint, as well as its fashion and mobile technology capacity, Zalando is confident that it is well positioned to benefit from these favorable market conditions for online sales.



WWW.BEVH.ORG

6) European Commission  
 7) The Macroeconomic Policy Institute (MPI)  
 8) Euromonitor International; Europe excl. Russia  
 9) Federal Association E-Commerce and Distance Retail Germany (bevh)  
 10) Euromonitor International; Europe excl. Russia  
 11) Euromonitor International; Europe excl. Russia

## 01.5.2 ADJUSTED GUIDANCE

Following a successful second quarter 2016, and supported by stronger operating leverage than expected, management has increased its guidance for the adjusted EBIT margin and now expects an adjusted EBIT margin of 4.0% to 5.5% in the current fiscal year (or an unadjusted EBIT margin of around 3.6% to 5.1%).

There are no changes to the revenue guidance for 2016 contained in the 2015 annual report. Zalando confirms its full-year revenue growth guidance at the upper end of the 20% to 25% growth corridor.

## 01.5.3 OVERALL ASSESSMENT BY THE MANAGEMENT BOARD OF ZALANDO SE

Overall, the financial performance and position show that at the time of preparing the half-year report of the fiscal year 2016, the economic condition of the group remained good.

Berlin, August 9, 2016

The Management Board

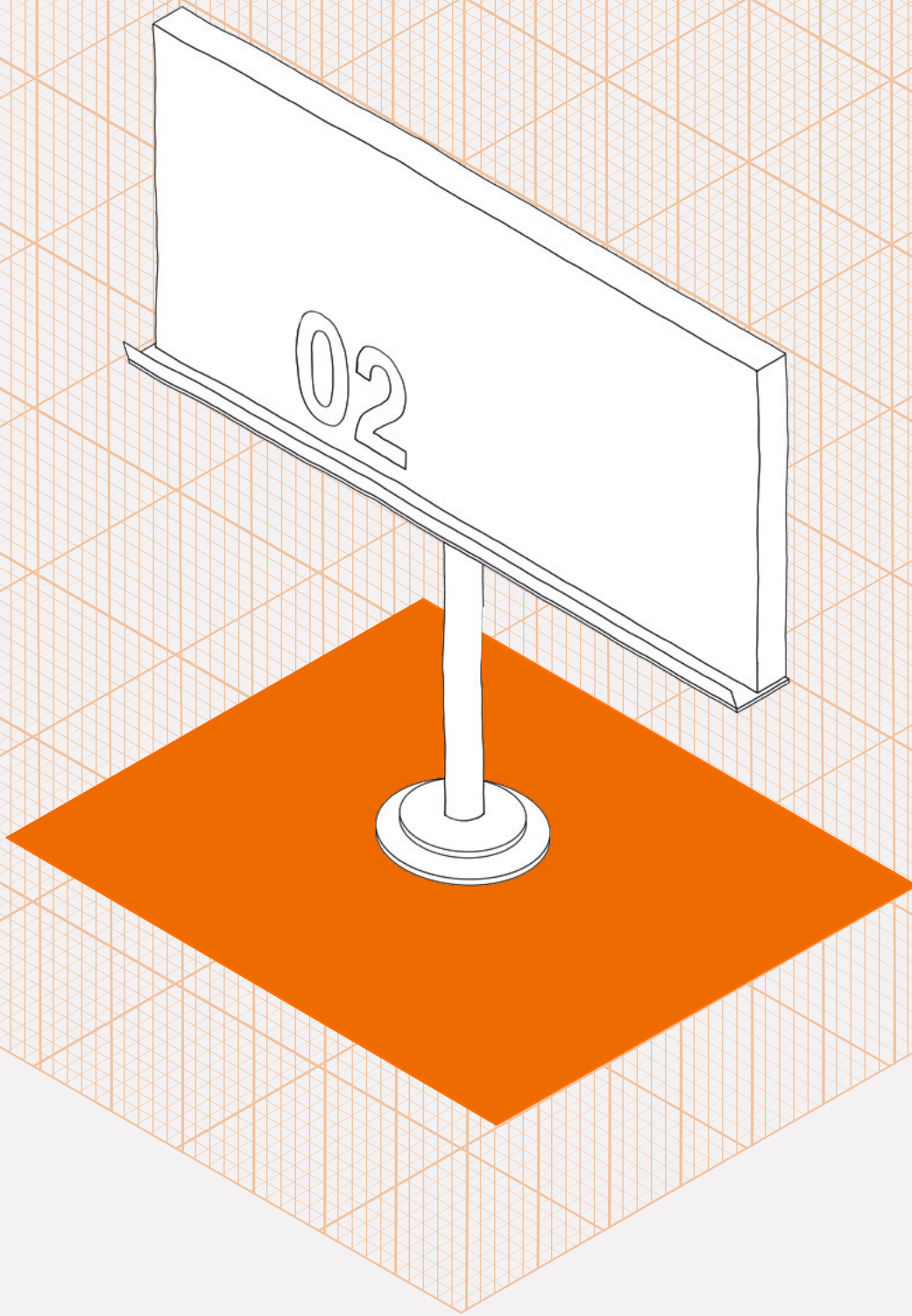
Robert Gentz

David Schneider

Rubin Ritter



END OF THE QUICK READER  
INFORMATION



2/4 2016

## INTERIM CONSOLIDATED FINANCIAL STATEMENTS

OTHER FACTS

**1,340**

TECH EMPLOYEES

**10,639**

EMPLOYEES

## 02.1 CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME



FURTHER INFORMATION  
FINANCIAL PERFORMANCE  
OF THE GROUP P. 6

### 12 CONSOLIDATED INCOME STATEMENT

IN EUR M	NOTES	APR 1– JUN 30, 2016	APR 1– JUN 30, 2015	JAN 1– JUN 30, 2016	JAN 1– JUN 30, 2015
Revenue	(1.)	916.4	733.0	1,712.6	1,376.6
Cost of sales	(2.)	–483.2	–378.5	–945.9	–732.0
<b>Gross profit</b>		<b>433.3</b>	<b>354.5</b>	<b>766.7</b>	<b>644.6</b>
Selling and distribution costs		–310.0	–297.4	–587.1	–534.2
Administrative expenses		–48.9	–31.7	–89.5	–60.8
Other operating income		3.5	2.2	5.0	5.2
Other operating expenses		–0.7	–2.0	–1.4	–4.0
<b>Earnings before interest and taxes (EBIT)</b>		<b>77.2</b>	<b>25.7</b>	<b>93.6</b>	<b>50.8</b>
Interest and similar income		0.3	0.3	0.6	0.4
Interest and similar expenses		1.3	–1.0	–4.0	–2.3
Result of investments accounted for using the equity method		–0.8	–0.4	–1.4	–0.4
Other financial result		0.9	0.2	0.4	6.8
<b>Financial result</b>		<b>1.7</b>	<b>–0.9</b>	<b>–4.5</b>	<b>4.5</b>
<b>Earnings before taxes (EBT)</b>		<b>78.9</b>	<b>24.8</b>	<b>89.1</b>	<b>55.3</b>
Income taxes	(3.)	–28.0	–1.8	–33.7	–8.1
<b>Net income for the period</b>		<b>50.9</b>	<b>23.0</b>	<b>55.5</b>	<b>47.3</b>
Thereof net income attributable to the shareholders of ZALANDO SE		50.9	23.0	55.5	47.3
Net income for the period as percentage of revenue		5.6%	3.1%	3.2%	3.4%
Basic earnings per share (in EUR)	(4.)	0.21	0.09	0.22	0.19
Diluted earnings per share (in EUR)	(4.)	0.20	0.09	0.22	0.19

### 13 CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

IN EUR M	APR 1– JUN 30, 2016	APR 1– JUN 30, 2015	JAN 1– JUN 30, 2016	JAN 1– JUN 30, 2015
<b>Net income for the period</b>	<b>50.9</b>	<b>23.0</b>	<b>55.5</b>	<b>47.3</b>
<b>Items recycled to profit or loss in subsequent periods</b>				
Effective portion of gains/losses from cash flow hedges, net of tax	–0.6	2.8	–1.9	–3.5
Exchange differences on translation of foreign financial statements	–0.2	0.0	–0.4	0.0
<b>Other comprehensive income</b>	<b>–0.9</b>	<b>2.7</b>	<b>–2.3</b>	<b>–3.5</b>
<b>Total comprehensive income</b>	<b>50.0</b>	<b>25.7</b>	<b>53.2</b>	<b>43.8</b>
Thereof total comprehensive income attributable to the shareholders of ZALANDO SE	50.0	25.7	53.2	43.8

## 02.2 CONSOLIDATED STATEMENT OF FINANCIAL POSITION



FURTHER INFORMATION  
FINANCIAL POSITION P. 16

### 14 CONSOLIDATED STATEMENT OF FINANCIAL POSITION – ASSETS

IN EUR M	NOTES	JUN 30, 2016	DEC 31, 2015
<b>Non-current assets</b>			
Intangible assets		85.5	48.8
Property, plant and equipment		169.4	128.2
Financial assets		22.7	17.6
Deferred tax assets		26.2	47.5
Non-financial assets		3.6	3.5
Investments accounted for using the equity method	(5.)	16.0	7.4
		323.4	253.1
<b>Current assets</b>			
Inventories		445.3	493.5
Prepayments		1.4	1.4
Trade and other receivables		164.4	149.7
Other financial assets		158.1	175.9
Other non-financial assets		73.5	66.7
Cash and cash equivalents	(7.)	1,035.9	976.2
		1,878.6	1,863.5
<b>Total assets</b>		<b>2,202.0</b>	<b>2,116.5</b>

## 15 CONSOLIDATED STATEMENT OF FINANCIAL POSITION – EQUITY AND LIABILITIES

IN EUR M	NOTES	JUN 30, 2016	DEC 31, 2015
<b>Equity</b>			
Issued capital		247.1	247.0
Capital reserves		1,148.9	1,140.9
Other reserves		-0.9	1.4
Accumulated loss		-62.5	-118.0
		1,332.5	1,271.4
<b>Non-current liabilities</b>			
Provisions		9.4	9.1
Government grants		0.3	1.8
Borrowings		12.8	14.4
Other financial liabilities		0.8	2.1
Other non-financial liabilities		3.3	3.1
Deferred tax liabilities		2.4	0.8
		29.0	31.3
<b>Current liabilities</b>			
Borrowings		3.2	3.2
Trade payables and similar liabilities	(6.)	675.3	645.8
Prepayments received		10.3	8.6
Income tax liabilities		5.6	18.2
Other financial liabilities		63.0	71.8
Other non-financial liabilities		83.0	66.1
		840.5	813.8
<b>Total equity and liabilities</b>		<b>2,202.0</b>	<b>2,116.5</b>

## 02.3 CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

### 16 CONSOLIDATED STATEMENT OF CHANGES IN EQUITY 2016

IN EUR M	NOTES	ISSUED CAPITAL	CAPITAL RESERVES
<b>As of Jan 1, 2016</b>		<b>247.0</b>	<b>1,140.9</b>
Net income for the period		0.0	0.0
Other comprehensive income		0.0	0.0
<b>Total comprehensive income</b>		<b>0.0</b>	<b>0.0</b>
Capital increase		0.1	0.4
Share-based payments		0.0	7.5
<b>As of Jun 30, 2016</b>		<b>247.1</b>	<b>1,148.9</b>

### 17 CONSOLIDATED STATEMENT OF CHANGES IN EQUITY 2015

IN EUR M	NOTES	ISSUED CAPITAL	CAPITAL RESERVES
<b>As of Jan 1, 2015</b>		<b>244.8</b>	<b>1,120.4</b>
Net income for the period		0.0	0.0
Other comprehensive income		0.0	0.0
<b>Total comprehensive income</b>		<b>0.0</b>	<b>0.0</b>
Capital increase		1.9	3.6
Reversal of claims to share-based payments		0.0	-2.3
Share-based payments		0.0	8.4
<b>As of Jun 30, 2015</b>		<b>246.6</b>	<b>1,130.1</b>



## OTHER RESERVES

	CASH FLOW HEDGES	CURRENCY TRANSLATION	ACCUMULATED LOSSES	TOTAL
	1.4	0.0	-118.0	1,271.4
	0.0	0.0	55.5	55.5
	-1.9	-0.4	0.0	-2.3
	-1.9	-0.4	55.5	53.2
	0.0	0.0	0.0	0.5
	0.0	0.0	0.0	7.5
	-0.5	-0.4	-62.5	1,332.5

## OTHER RESERVES

	CASH FLOW HEDGES	CURRENCY TRANSLATION	ACCUMULATED LOSSES	TOTAL
	1.0	0.0	-239.5	1,126.7
	0.0	0.0	47.3	47.3
	-3.5	0.0	0.0	-3.5
	-3.5	0.0	47.3	43.8
	0.0	0.0	0.0	5.5
	0.0	0.0	0.0	-2.3
	0.0	0.0	0.0	8.4
	-2.5	0.0	-192.2	1,182.0

## 02.4 CONSOLIDATED STATEMENT OF CASH FLOWS



FURTHER INFORMATION  
CASH FLOWS P. 15

### 18 CONSOLIDATED STATEMENT OF CASH FLOWS

IN EUR M	NOTES	APR 1– JUN 30, 2016	APR 1– JUN 30, 2015	JAN 1– JUN 30, 2016	JAN 1– JUN 30, 2015
1.	Net income for the period	50.9	23.0	55.5	47.3
2.	+ Non-cash expenses from share-based payments	3.7	4.4	7.5	8.4
3.	– Cash paid for settlement of claims from share-based payments	0.0	–0.3	0.0	–2.3
4.	+ Depreciation of property, plant and equipment and amortization of intangible assets	10.3	8.0	19.3	15.5
5.	+ Income taxes	(3.) 28.0	1.8	33.7	8.1
6.	– Income taxes paid, less refunds	–4.5	0.0	–24.6	0.0
7.	+/- Increase/decrease in provisions	–4.0	0.1	–0.4	–0.3
8.	-/+ Other non-cash income/expenses	–1.0	–1.6	–1.0	–2.5
9.	+/- Decrease/increase in inventories	145.1	42.1	48.2	–84.1
10.	+/- Decrease/increase in trade and other receivables	–0.9	2.5	–12.4	–26.6
11.	+/- Increase/decrease in trade payables and similar liabilities	(6.) –69.3	–39.3	20.3	78.2
12.	-/+ Increase/decrease in other assets/liabilities	–1.2	–5.7	1.7	–18.3
<b>13.</b>	<b>= Cash flow from operating activities</b>	<b>(7.) 156.9</b>	<b>35.0</b>	<b>147.7</b>	<b>23.3</b>
14.	– Cash paid for investments in property, plant and equipment	–30.6	–6.1	–41.5	–7.5
15.	– Cash paid for investments in intangible assets	–13.9	–4.8	–26.7	–11.8
16.	– Cash paid for acquisitions of shares in associated companies and acquisition of companies and prepayments for such acquisitions	–28.3	–12.2	–29.2	–12.2
17.	+/- Cash received from/paid for investments in term deposits	10.0	–20.0	10.0	–110.0
18.	+/- Change in restricted cash	0.0	17.8	0.0	33.5
<b>19.</b>	<b>= Cash flow from investing activities</b>	<b>–62.7</b>	<b>–25.4</b>	<b>–87.3</b>	<b>–108.0</b>

## 02.4 CONSOLIDATED STATEMENT OF CASH FLOWS

## 18 CONSOLIDATED STATEMENT OF CASH FLOWS

IN EUR M	NOTES	APR 1– JUN 30, 2016	APR 1– JUN 30, 2015	JAN 1– JUN 30, 2016	JAN 1– JUN 30, 2015
20. +	Cash received from capital increases by the shareholders less transaction costs	0.5	4.0	0.5	5.5
21. –	Cash repayments of loans	–0.8	–0.8	–1.6	–1.6
<b>22. =</b>	<b>Cash flow from financing activities</b>	<b>–0.3</b>	<b>3.2</b>	<b>–1.1</b>	<b>3.9</b>
23. =	Net change in cash and cash equivalents from cash-relevant transactions	93.9	12.8	59.2	–80.8
24. +/-	Change in cash and cash equivalents due to exchange rate movements	0.8	–0.2	0.4	3.4
25. +	Cash and cash equivalents at the beginning of the period	941.2	960.9	976.2	1,051.0
<b>26. =</b>	<b>Cash and cash equivalents as of Jun 30</b>	<b>1,035.9</b>	<b>973.5</b>	<b>1,035.9</b>	<b>973.5</b>

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

## 19 CASH-RELEVANT INTERESTS

IN EUR M	APR 1– JUN 30, 2016	APR 1– JUN 30, 2015	JAN 1– JUN 30, 2016	JAN 1– JUN 30, 2015
Interest paid	–1.3	–1.4	–2.0	–2.8
Interest received	0.1	0.2	0.3	0.3
<b>Total</b>	<b>–1.2</b>	<b>–1.2</b>	<b>–1.6</b>	<b>–2.5</b>

The calculation below shows the calculation of the free cash flow based on the cash flow from operating activities.

## 20 FREE CASH FLOW

IN EUR M	APR 1– JUN 30, 2016	APR 1– JUN 30, 2015	JAN 1– JUN 30, 2016	JAN 1– JUN 30, 2015
Cash flow from operating activities	156.9	35.0	147.7	23.3
Cash paid for investments in property, plant and equipment	–30.6	–6.1	–41.5	–7.5
Cash paid for investments in intangible assets	–13.9	–4.8	–26.7	–11.8
Cash paid for acquisitions of shares in associated companies and acquisition of companies and prepayments for such acquisitions	–28.3	–12.2	–29.2	–12.2
<b>Free cash flow</b>	<b>84.2</b>	<b>11.9</b>	<b>50.4</b>	<b>–8.2</b>

## 02.5 CONDENSED NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

### 02.5.1 CORPORATE INFORMATION

ZALANDO SE is a **publicly listed stock corporation** with registered offices in Berlin, Germany. ZALANDO SE, Berlin, is the parent of the Zalando group (hereinafter referred to as “Zalando” or the “group”).

The condensed and unaudited interim consolidated financial statements as of June 30, 2016 of ZALANDO SE comply with International Financial Reporting Standards (IFRS) as adopted by the EU. These condensed interim consolidated financial statements were prepared in accordance with IAS 34 Interim Financial Reporting in conjunction with IAS 1 Presentation of Financial Statements. The terms of the WpHG (“Wertpapierhandelsgesetz”: German Securities Trading Act) were also complied with. The interim condensed consolidated financial statements do not include all of the information and disclosures required for consolidated financial statements as of year-end and must therefore be read in conjunction with the consolidated financial statements for the year ending December 31, 2015.

#### **ACCOUNTING AND VALUATION PRINCIPLES**

In general the accounting policies as applied to the consolidated financial statements as of December 31, 2015 remain unchanged.

The first-time application of new accounting standards in the 2016 fiscal year did not have a material impact on the interim financial statements, as was explained in the 2015 annual report.

The condensed interim consolidated financial statements are presented in euros.

As the presented figures are rounded, the individual figures may not add up exactly to the totals shown and the percentage figures presented may not exactly reflect the absolute figures they relate to.

#### **BASIS OF CONSOLIDATION**

The number of subsidiaries included in the basis of consolidation increased from 24 as of December 31, 2015 to 30 on account of entities founded and acquired in fiscal year 2016. The acquisitions completed in the first half of 2016 were not material.

## 02.5.2 SELECTED NOTES TO THE CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

### (1.) REVENUE

#### 21 REVENUE

IN EUR M	APR 1– JUN 30, 2016	APR 1– JUN 30, 2015	JAN 1– JUN 30, 2016	JAN 1– JUN 30, 2015
Revenue from the sale of merchandise	899.5	725.8	1,683.2	1,364.8
Revenue from other services	17.0	7.1	29.4	11.7
<b>Total</b>	<b>916.4</b>	<b>733.0</b>	<b>1,712.6</b>	<b>1,376.6</b>

Zalando achieved strong growth and thus delivered on its ambitious target. In the second quarter of 2016, Zalando increased its revenue by EUR 183.5m from EUR 733.0m to EUR 916.4m compared to the prior-year period. This corresponds to year-on-year revenue growth of 25.0%.

The increase in revenue can be primarily attributed to a larger customer base as well as an increase in average orders per active customer. As of June 30, 2016, the group had **18.8 million active customers** compared to 16.4 million active customers as of June 30, 2015. This corresponds to an increase of 15.0%. The larger customer base ordered more frequently compared to the corresponding prior-year period. Specifically, the average number of orders per active customer increased by 14.7%. The average basket size decreased slightly to EUR 66.2 (prior year: EUR 67.4).

The higher number of orders was driven by a higher conversion rate of site visits into orders. In the second quarter, site visits rose by 16.6%, with orders increasing by 25.3%. This resulted in a conversion rate of 3.7% (prior year: 3.4%). At the same time, the share of site visits on mobile devices increased by 8.1 percentage points compared to the corresponding prior-year period to 64.7% (prior year: 56.6%).

Specifically, Zalando invested across four dimensions: its brand, the fashion assortment, its mobile proposition, and convenience aspects. In essence, the revenue growth of the second quarter was driven by our continued focus on **improving the customer proposition** and is clearly apparent in our good sell-through rate for the current spring/summer collection.

The development in the first six months of 2016 can be described as follows: Revenue shows a considerable rise of 24.4% to EUR 1,712.6m (prior year: EUR 1,376.6m) compared to the corresponding prior-year period, driven by the four aforementioned dimensions of customer proposition investments.

**(2.) COST OF SALES****22 COST OF SALES**

IN EUR M	APR 1– JUN 30, 2016	APR 1– JUN 30, 2015	JAN 1– JUN 30, 2016	JAN 1– JUN 30, 2015
Non-personnel costs	468.5	365.8	915.4	706.5
Personnel costs	14.7	12.7	30.4	25.5
<b>Total</b>	<b>483.2</b>	<b>378.5</b>	<b>945.9</b>	<b>732.0</b>

The cost of sales mainly consists of cost of materials, personnel costs, write-downs on inventories, third-party services and infrastructure costs. The cost of sales rose from EUR 378.5m by EUR 104.7m to EUR 483.2m. The cost of sales as a percentage of revenue increased by 1.1 percentage points from 51.6% to 52.7%.

The cost of materials in the group totals EUR 436.6m (prior year: EUR 344.3m).

Zalando generated a gross profit of EUR 433.3m in the second quarter of 2016 (prior year: EUR 354.5m).

The second quarter of 2016 showed good development in terms of gross margin with Zalando's major operational indicators, such as sell-through and discounting, roughly in line with prior-year levels. The group discount rate was nevertheless slightly higher due to the higher share of Lounge business relative to the prior-year period. Changes in exchange rates had a small negative impact on the gross margin as well. However, economies of scale from continued negotiation successes with brand partners partially offset these effects.

**(3.) INCOME TAXES****23 INCOME TAXES**

IN EUR M	APR 1– JUN 30, 2016	APR 1– JUN 30, 2015	JAN 1– JUN 30, 2016	JAN 1– JUN 30, 2015
Deferred taxes	17.4	-1.8	21.7	1.5
Current taxes in Germany	10.6	3.6	11.9	6.6
<b>Total</b>	<b>28.0</b>	<b>1.8</b>	<b>33.7</b>	<b>8.1</b>

The current tax expenses incurred for the pre-tax income of the second quarter and first half of 2016 are reduced by the utilization of deductible tax losses brought forward.

**(4.) EARNINGS PER SHARE**

The basic earnings per share are determined by dividing the net income for the period attributable to the shares by the basic weighted average number of shares.

**24 BASIC EARNINGS PER SHARE (EPS)**

	APR 1– JUN 30, 2016	APR 1– JUN 30, 2015	JAN 1– JUN 30, 2016	JAN 1– JUN 30, 2015
Net income for the period (in EUR m)	50.9	23.0	55.5	47.3
Basic weighted average number of shares (in millions)	247.1	246.3	247.1	245.6
<b>Total (in EUR)</b>	<b>0.21</b>	<b>0.09</b>	<b>0.22</b>	<b>0.19</b>

The basic earnings per share developed in line with the increase in the net income for the period from EUR 23.0 in the second quarter of 2015 to EUR 50.9 in the second quarter of 2016.

The diluted earnings per share are determined by dividing the net income for the period attributable to the shares by the diluted weighted average number of shares.

**25 DILUTED EARNINGS PER SHARE (EPS)**

	APR 1– JUN 30, 2016	APR 1– JUN 30, 2015	JAN 1– JUN 30, 2016	JAN 1– JUN 30, 2015
Net income for the period (in EUR m)	50.9	23.0	55.5	47.3
Diluted weighted average number of shares (in millions)	254.8	253.2	255.1	252.6
<b>Total (in EUR)</b>	<b>0.20</b>	<b>0.09</b>	<b>0.22</b>	<b>0.19</b>

### 02.5.3 SELECTED NOTES TO THE CONSOLIDATED STATEMENT OF FINANCIAL POSITION

#### (5.) INVESTMENTS ACCOUNTED FOR USING THE EQUITY METHOD

During the second quarter of 2016, Zalando acquired an additional 14.8% stake in Anatwine Ltd., Cheltenham, UK. The increase from a 20.0% to a 34.8% shareholding did not change the fact that Zalando does not currently exercise control according to IFRS 10 over Anatwine. Furthermore, in the first half of the year the carrying amount of investments accounted for using the equity method decreased by EUR 1.8m (prior-year period: EUR 0.4m) driven by operating losses.

Anatwine Ltd. provides customized software integration services for fashion brands to enable the integration of their merchandise into online marketplaces.

#### (6.) TRADE PAYABLES AND SIMILAR LIABILITIES AND PREPAYMENTS RECEIVED

Trade payables and similar liabilities rose by EUR 29.5m from EUR 645.8m to EUR 675.3m.

Moreover, under reverse factoring agreements, suppliers' claims against Zalando totaling EUR 223.3m were transferred to various factors as of June 30, 2016 (December 31, 2015: EUR 170.9m). These are recognized in the statement of financial position under trade payables and similar liabilities.

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

#### (7.) NOTES TO THE STATEMENT OF CASH FLOWS

Zalando generated a positive cash flow from operating activities of EUR 156.9m in the second quarter of 2016 (prior-year period: EUR 35.0m).

In addition to the improvement in net income (which rose from EUR 23.0m in the prior-year period to EUR 50.9m in the reporting period), the positive cash flow development from operating activities was driven by cash inflows from declining net working capital.

The positive cash flow from net working capital was mainly due to declining inventories, also indicating the strong sell-through rate. The higher business volume did not result in payables on the same scale due to improved payment behavior, also supported by an extended availability and utilization of reverse factoring lines.

The cash flow from investing activities amounts to EUR 62.7m and primarily represents investments in the logistics infrastructure of EUR 29.6m, relating primarily to the fulfillment centers in Mönchengladbach and Lahr as well as investments in internally developed software of EUR 13.9m. An amount of EUR 28.3m was invested in corporate acquisitions and led also mainly to the recognition of intangible assets.



The free cash flow increased by EUR 72.3m, from EUR 11.9m in the prior-year period to EUR 84.2m in the second quarter of 2016, mainly driven by the aforementioned net working capital and investing activities.

On aggregate, cash and cash equivalents increased by EUR 94.7m in the second quarter, resulting in Zalando carrying cash and cash equivalents of EUR 1,035.9m as of June 30, 2016.

In comparison to the first six months of 2015, the free cash flow increased by EUR 58.6m from EUR –8.2m. to EUR 50.4m, mainly driven by the aforementioned net working capital and investing activities.

## 02.5.4 OTHER SELECTED NOTES

### INFORMATION ABOUT RELATED PARTIES

Zalando has identified the related parties of ZALANDO SE in accordance with IAS 24.

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

These goods and services give rise to liabilities of EUR 35.2m as of the reporting date (prior year: EUR 40.1m). Of this amount, EUR 35.2m (prior year: EUR 40.1m) is due to a reverse factoring provider on account of reverse factoring agreements between Zalando and related parties. As a result, there are no trade payables or similar liabilities due directly to related parties (December 31, 2015: EUR 0.0m).

Merchandise of EUR 41.3m was ordered from related parties in the reporting period. The order volume totaled EUR 21.9m in the comparative period of the prior year. The cost of services received came to EUR 0.2m in the reporting period (comparable period: EUR 0.6m), which mainly result from the second quarter of 2016.

### SEGMENT REPORTING

The Management Board measures the performance of the segments on the basis of EBIT calculated in accordance with IFRS. EBIT for segment reporting purposes is defined as earnings before interest and taxes. There are no intersegment transactions in the internal reporting structure. No information on segment assets or liabilities is available or relevant for decision-making.

The segment reporting shows the **positive development of revenue in all reporting segments** of the Zalando group:

#### 26 SEGMENT REPORTING APR 1–JUN 30, 2016

IN EUR M	DACH	REST OF EUROPE	OTHER	APR 1–JUN 30, 2016
Revenue	471.4	383.2	61.8	916.4
<b>Earnings before interest and taxes (EBIT)</b>	<b>63.8</b>	<b>14.4</b>	<b>-1.0</b>	<b>77.2</b>

#### 27 SEGMENT REPORTING APR 1–JUN 30, 2015

IN EUR M	DACH	REST OF EUROPE	OTHER	APR 1–JUN 30, 2015
Revenue	411.0	285.3	36.6	733.0
<b>Earnings before interest and taxes (EBIT)</b>	<b>11.9</b>	<b>9.7</b>	<b>4.1</b>	<b>25.7</b>

#### 28 SEGMENT REPORTING JAN 1–JUN 30, 2016

IN EUR M	DACH	REST OF EUROPE	OTHER	JAN 1–JUN 30, 2016
Revenue	877.3	717.7	117.6	1,712.6
<b>Earnings before interest and taxes (EBIT)</b>	<b>101.1</b>	<b>-4.1</b>	<b>-3.4</b>	<b>93.6</b>

#### 29 SEGMENT REPORTING JAN 1–JUN 30, 2015

IN EUR M	DACH	REST OF EUROPE	OTHER	JAN 1–JUN 30, 2015
Revenue	758.1	550.3	68.1	1,376.6
<b>Earnings before interest and taxes (EBIT)</b>	<b>42.1</b>	<b>3.4</b>	<b>5.3</b>	<b>50.8</b>

### SEGMENT DEVELOPMENT FOR THE QUARTER

Zalando's strong increase in revenue was generated across all segments, thereby further **expanding its market position across its segments**.

In the second quarter of 2016, revenue in the DACH segment grew by 14.7%, by 34.3% in the Rest of Europe segment and by 68.9% in the Other segment, compared to the prior-year period. The core DACH segment continued to generate the highest absolute level of revenue, followed by the Rest of Europe segment.

With an increase in the EBIT margin of 10.6 percentage points to 13.5%, the DACH segment showed strong profitability in the second quarter of 2016. The increase primarily results from lower allowances on trade receivables relative to revenue and operating leverage including our fulfillment and marketing costs. Zalando improved the EBIT margin in the Rest of Europe segment by 0.4 percentage points from 3.4% to 3.8% mainly due to increased fulfillment and marketing efficiency. The Other segment recorded a decrease of 12.8 percentage points, resulting in an EBIT margin of -1.6% in the second quarter of 2016. The negative development is mainly a result of the ramp-up of the platform investments as well as the Zalando Lounge product mix.

### SEGMENT DEVELOPMENT FOR THE FIRST SIX MONTHS

In the first half of 2016, group revenue increased by 24.4% from EUR 1,376.6m in the corresponding prior-year period to EUR 1,712.6m.

In the **DACH segment, the strongest segment in terms of revenue**, revenue rose by 15.7% in the first six months of 2016 compared to the corresponding prior-year period. In the Rest of Europe segment, revenue grew 30.4%. Zalando's revenue growth in the Other segment was especially strong with 72.6%. Apparel remained the largest product category in terms of revenue in the first six months of 2016.

The EBIT margin in the DACH segment improved from 5.5% in the first six months of 2015 to 11.5% in the first six months of 2016. This **significant increase** mainly results from lower allowances on trade receivables and operating leverage including fulfillment and marketing costs. The EBIT margin for the Rest of Europe segment declined slightly by 1.2 percentage points to -0.6% for the six-month period ended June 30, 2016 mainly due to higher discounts and currency translation effects. The EBIT margin in the Other segment decreased from 7.8% in the first six months of 2015 to -2.9% in the first six months of 2016 mainly from the ramp-up of the platform investments as well as the Zalando Lounge product mix.

### SUBSEQUENT EVENTS

No significant events occurred after the reporting date which could materially affect the presentation of the financial performance and position of the group.

Berlin, August 9, 2016

The Management Board

Robert Gentz

David Schneider

Rubin Ritter

## 02.6 REVIEW REPORT

To ZALANDO SE

We have reviewed the condensed interim consolidated financial statements, comprising the consolidated statement of comprehensive income, the consolidated statement of financial position, the consolidated statement of changes in equity, the consolidated statement of cash flows and selected explanatory notes, and the interim group management report of ZALANDO SE, Berlin, for the period from January 1, 2016 to June 30, 2016, which are part of the six-monthly financial report pursuant to Sec. 37w WpHG [“Wertpapierhandelsgesetz”: German Securities Trading Act]. The preparation of the condensed interim consolidated financial statements in accordance with IFRSs [International Financial Reporting Standards] on interim financial reporting as adopted by the EU and of the group management report in accordance with the requirements of the WpHG applicable to interim group management reports is the responsibility of the Company’s management. Our responsibility is to issue a report on the condensed interim consolidated financial statements and the interim group management report based on our review.

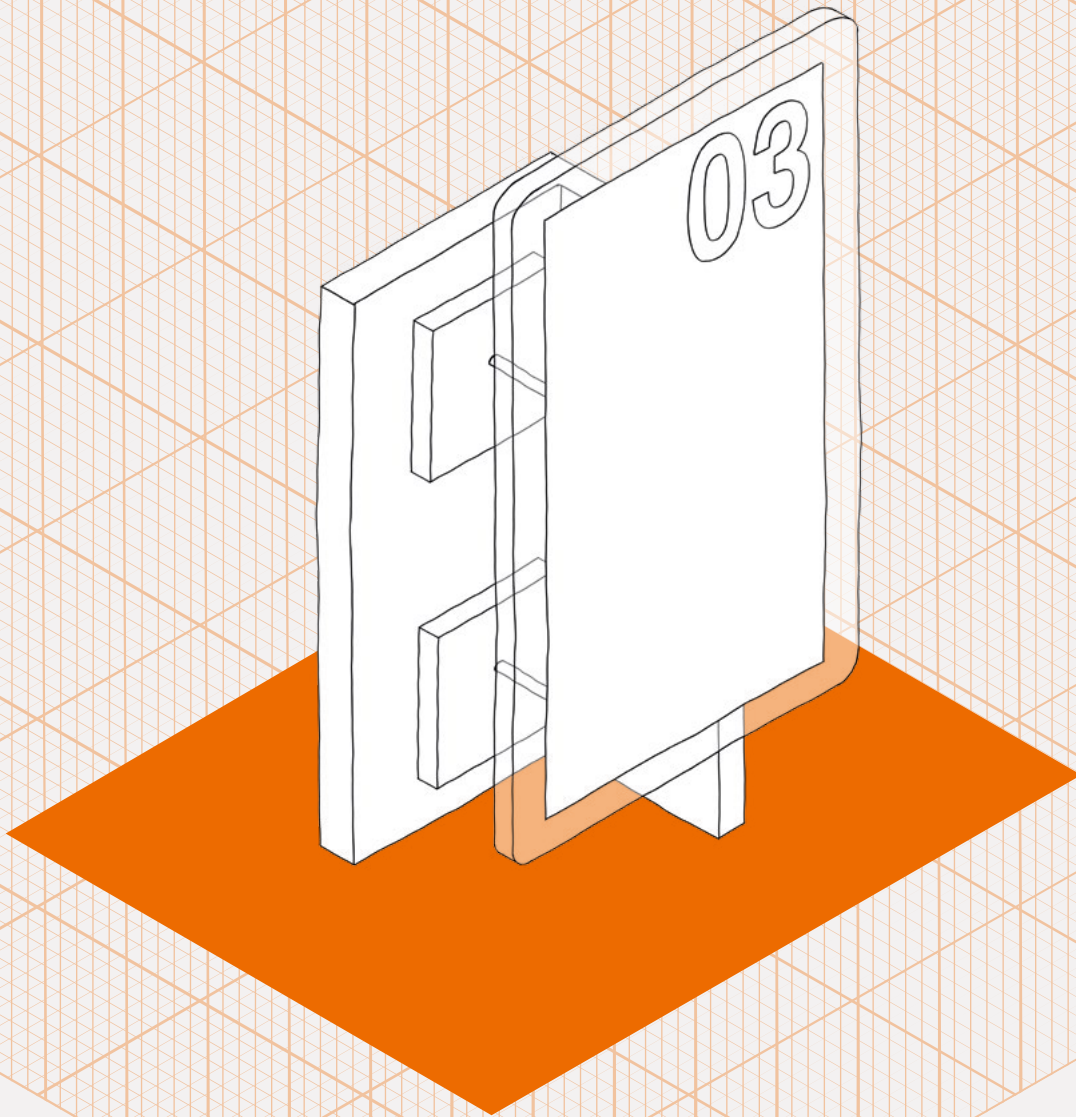
We conducted our review of the condensed interim consolidated financial statements and the interim group management report in accordance with German generally accepted standards for the review of financial statements promulgated by the Institut der Wirtschaftsprüfer [Institute of Public Auditors in Germany] (IDW). Those standards require that we plan and perform the review to obtain a certain level of assurance in our critical appraisal to preclude that the condensed interim consolidated financial statements are not prepared, in all material respects, in accordance with IFRS on interim financial reporting as adopted by the EU and that the interim group management report is not prepared, in all material respects, in accordance with the provisions of the WpHG applicable to interim group management reports. A review is limited primarily to making inquiries of company personnel and applying analytical procedures and thus does not provide the assurance that we would obtain from an audit of financial statements. In accordance with our engagement, we have not performed an audit and, accordingly, we do not express an audit opinion.

Based on our review, nothing has come to our attention that causes us to believe that the condensed interim consolidated financial statements are not prepared, in all material respects, in accordance with IFRS on interim financial reporting as adopted by the EU or that the interim group management report is not prepared, in all material respects, in accordance with the provisions of the WpHG applicable to interim group management reports.

Berlin, August 9, 2016

Ernst & Young GmbH  
Wirtschaftsprüfungsgesellschaft

Dr. Rödgers	Haas
Wirtschaftsprüfer	Wirtschaftsprüfer
[German Public Auditor]	[German Public Auditor]



**2/4 2016**  
**SERVICE**

FINANCIAL CALENDAR 2016

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# November 10, 2016

PUBLICATION OF THIRD QUARTER RESULTS

## 03.1 GLOSSARY

### Active customers

We define active customers as the number of customers who have placed at least one order in the last 12 months during the reporting period, irrespective of cancelations or returns.

### Adjusted EBIT

We define adjusted EBIT as EBIT before equity-settled share-based payment expense.

### Adjusted EBITDA

We define adjusted EBITDA as EBITDA before equity-settled share-based payment expense.

### Adjusted fulfillment cost ratio

We define the adjusted fulfillment cost ratio as fulfillment costs before equity-settled share-based payments, divided by the revenue during the reporting period. Fulfillment costs include expenditures for shipment processing, content creation, customer service and payment processing, as well as allocated overhead costs and write-downs on trade receivables. Fulfillment costs thus include all selling and distribution costs with the exception of marketing costs.

### Adjusted marketing cost ratio

We define the adjusted marketing cost ratio as marketing costs before equity-settled share-based payment expense, divided by the revenue during the reporting period. Marketing costs consist of expenses for advertising, including search engine marketing and advertising on television, online and other marketing channels, as well as allocated overhead costs.

### Average basket size

We define the average basket size as the gross merchandise volume (including the gross merchandise volume from our partner program) after cancelations and returns, divided by the number of orders delivered during the reporting period. The gross merchandise volume is defined as the total amount spent by our customers (including VAT) less cancelations and returns during the reporting period.

### Average orders per active customer

We define the average orders per active customer as the number of orders in the last 12 months of the reporting period, divided by the number of active customers.

### Co-branding

Co-branding refers to the marketing partnership between established brands for the enhanced marketing of their products.

### Content creation

We define content creation as the production of photos and text for the sale of products on our websites.

### Conversion rate

We define conversion rate as a ratio of number of orders to site visits.

### Customer service

We define customer services as the service we offer our customers via our hotline or email.

**EBIT**

EBIT is short for “earnings before interest and taxes”.

**EBITDA**

EBITDA is short for EBIT before depreciation and amortization of property, plant and equipment and intangible assets.

**EBIT margin**

The EBIT margin is defined as EBIT as a percentage of revenue.

**Free cash flow**

Cash flow from operating activities plus cash flow from investment activities (excluding investments in time deposits and restricted cash).

**Mobile commerce**

We define mobile commerce as retail via mobile devices such as smartphones or tablet computers.

**Mobile visit share (as % of site visits)**

We define the mobile visit share (as % of site visits) as the number of page views via m.sites, t.sites or apps divided by the total number of page views during the period in question.

**m.sites**

Websites designed to be accessed via mobile phones or smartphones that offer users internet access.

**Net working capital**

We calculate net working capital as the sum of inventories and trade receivables less trade payables and similar liabilities.

**Number of orders**

We define the number of orders as the number of orders placed by customers during the reporting period, irrespective of cancelations or returns. An order is counted on the day the customer places the order. The number of orders placed may differ from the number of orders delivered because the orders at the end of the reporting period may still be in transit or may have been canceled.

**Site visits**

We define site visits as the number of series of page views from the same device and the same source (via websites, m.sites, t.sites or apps) during the relevant period. The series is considered ended when a page view is not recorded for longer than 30 minutes.

**t.sites**

Websites designed to be accessed via tablets, such as Apple iPad or the Samsung Galaxy tablets.

## 03.2 LIST OF CHARTS AND TABLES

### 03.2.1 CHARTS

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## 03.3 FINANCIAL CALENDAR 2016

### 30 FINANCIAL CALENDAR 2016

DATE	EVENT
Thursday, November 10	Publication of the third quarter results 2016

## 03.4 IMPRINT

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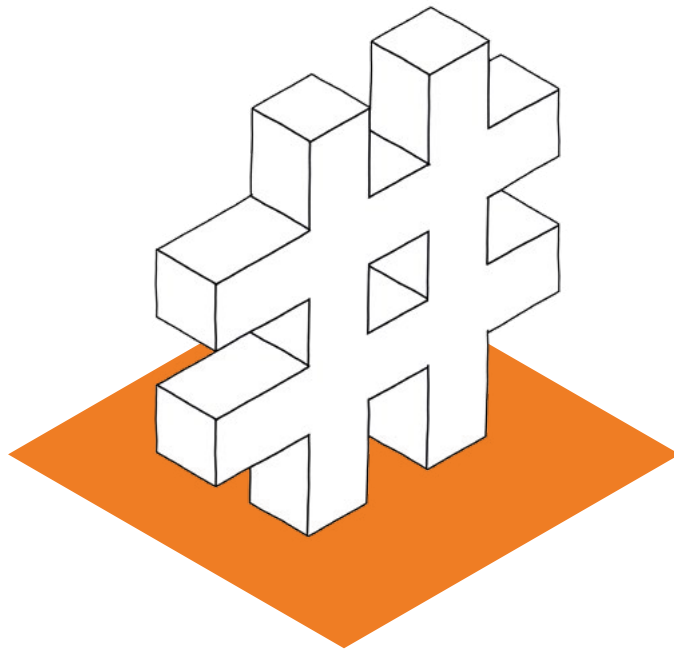
### ILLUSTRATION

Sven-Norman Bommers, Berlin

#### Statement relating to the future

This interim report contains statements that relate to the future and are based on assumptions and estimates made by the management of ZALANDO SE. Even if the management is of the opinion that these assumptions and estimates are appropriate, the actual development and the actual future results may vary from these assumptions and estimates as a result of a variety of factors. These factors include, for example, changes to the overall economic environment, the statutory and regulatory conditions in Germany and the EU and changes in the industry. ZALANDO SE makes no guarantee and accepts no liability for future development and the actual results achieved in the future matching the assumptions and estimates stated in this interim report. It is neither the intention of ZALANDO SE nor does ZALANDO SE accept a special obligation to update statements related to the future in order to align them with events or developments that take place after this interim report is published.

The interim report is available in English. If there are variances, the German version has priority over the English translation. It is available for download in both languages at <https://corporate.zalando.com/en/ir>.



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