zalando

NINE MONTHS REPORT 2014

JANUARY – SEPTEMBER 2014

ZALANDO AT A GLANCE

KEY FIGURES

	9M 2014	9M 2013	Q3 2014	Q3 2013
Key Performance Metrics				
Site Visits (in million)	976.2	860.0	321.7	291.0
Mobile Visit Share (in % of Site Visits)	40.0 %	24.8 %	43.3 %	28.2 %
Active Customers (in million)	14.1	12.3	14.1	12.3
Number of Orders (in million)	29.8	25.3	9.7	8.2
Average Orders per Active Customers (in number of orders)	2.8	2.7	2.8	2.7
Average Basket Size (in EUR)	64.7	59.8	64.4	60.7
Results of Operations (in EUR k)				
Revenue	1,548,481	1,212,404	501,391	403,821
EBIT	1,032	–125,671	–2,558	–50,940
EBIT (in % of revenue)	0.1 %	–10.4 %	–0.5 %	–12.6 %
Financial Position (in EUR k)				
Net Working Capital	–19,898	44,853	–19,898	44,853
Equity Ratio (in % of total liabilities)	61.2 %	38.5 %	61.2 %	38.5 %
Cash Flow from Operating Activities	99,926	–125,751	97,870	7,131
Cash Flow from Investing Activities	–49,741	–78,346	–17,512	–27,048
Cash and Cash Equivalents	466,846	183,220	466,846	183,220
Free Cash Flow	50,185	–204,097	80,358	–19,917
Other Metrics				
Employees (as of 30.09.)	7,176	6,592	7,176	6,592
Earnings per Share (in EUR)	0.00	–0.59	0.00	–0.24

OTHER FACTS

> 976 M

VISITS IN THE LAST NINE MONTHS

ACTIVE IN 15

EUROPEAN MARKETS

> 1.500

BRANDS

> 2.1 BN EUR

IN THE LAST TWELVE MONTHS

OUR MISSION IS TO CREATE THE WORLD'S BEST ONLINE FASHION EXPERIENCE.

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3/4 2014 | INTERIM GROUP MANAGEMENT REPORT

OTHER FACTS

> 150,000	43 %
STYLES	MOBILE TRAFFIC
> 7,000	> 14 M
EMPLOYEES	ACTIVE CUSTOMERS

01.1 SIGNIFICANT EVENTS

01.1.1 CHANGES IN THE COMPANY AND GROUP STRUCTURE

In the first half of 2014, the parent company of the Zalando Group changed its legal form from a German stock corporation (AG) to a European stock corporation (SE) by way of merger by acquisition of the wholly owned subsidiary Zalando PLC, London, UK (transferring entity). The merger and change in legal form took effect upon entry into the commercial register of Berlin-Charlottenburg local court on 28 May 2014.

01.1.2 IPO (INITIAL PUBLIC OFFERING)

Zalando shares have been traded on the regulated market (Prime Standard) of the Frankfurt stock exchange since 1 October 2014.

The listing was preceded by an offer for the sale of 28,147,656 no-par value ordinary bearer shares (Stückaktien) with an imputed share in share capital of EUR 1.00 each with dividend entitlement as of 1 January 2014. The offer comprised 24,476,223 new, no-par value bearer shares (Stückaktien) from the IPO capital increase and 3,671,433 no-par value bearer shares (Stückaktien) in connection with a potential over-allotment.

Investors had the option to purchase shares from 18 September 2014 to 29 September 2014 in an offering range of EUR 18.00 to EUR 22.50. The extraordinarily high demand from investors significantly exceeded the number of shares offered for purchase. The offering was oversubscribed well in excess of ten times at the high end of the price range. The Company set the offer price at EUR 21.50 on 29 September 2014.

In the course of the IPO, Zalando generated a cash inflow of EUR 517.4m, after deducting the base fee withheld by banks. The Greenshoe option granted by the underwriters, which could have been utilized until 27 October 2014, was not exercised.

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01.1.3 CREDIT LINE

On 30 July 2014, ZALANDO SE and certain subsidiaries concluded a Revolving Credit Facility of EUR 200m with some of the IPO underwriting syndicate banks or their affiliates. This facility can be drawn in various currencies. Amounts drawn under this Revolving Credit Facility may be applied towards general corporate and working capital purposes (including acquisitions) of the Group, may be used to fund the payment of fees and expenses for this Revolving Credit Facility, and may also be utilized by way of letters of credit. The facility terminates on 30 July 2019. The facility had not yet been utilized as of 30 September 2014.

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01.2 REPORT ON ECONOMIC POSITION

According to preliminary results published by the Federal Statistical Office in Germany (Destatis)[1], retail trade companies in Germany sold 1.3% in real terms and 1.8% in nominal terms more in the first nine months of 2014 compared to the prior-year period. Revenue figures in non-food retail trade were up 1.5% in real terms and 1.6% in nominal terms on the prior-year period. Retail trade with textiles, clothing, shoes and leather goods also reported only moderate growth of 0.7% in real terms and 1.8% in nominal terms.

According to Destatis, German internet and mail-order companies recorded revenue growth of 7.3% in real terms and 7.2% in nominal terms in the first nine months of the year compared to the prior-year period.

In our opinion, the economic conditions for the online sale of fashion items offer numerous and growing market opportunities:

- Online trade with fashion items is part of a second wave of e-commerce. The share of fashion items sold on the internet will continue to grow as opposed to in traditional brick-and-mortar stores.

- Fashion in Europe[2] is a large market with about EUR 420b of consumer spending in 2013 of which online fashion represented about EUR 38b, or about 9% of the total fashion retail market.[3] The total fashion market in Europe remained almost stable between 2008 and 2013, while online fashion grew much more rapidly at a 2008-13 CAGR[4] of about 19%.[5]

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- Europe is a highly attractive fashion market with concentrated wealth and population, which facilitate online sales. In our core market Western Europe, the fashion spend per capita at EUR 774 in 2013 ranks just behind North America and Australasia.[6] Furthermore, Europe as an online market benefits from the highest density of fashion spend globally (estimated to be EUR 63k per sq km, as compared with the Asia Pacific region, which has the second highest density of fashion spend at EUR 24k per sq km). Looking at Western Europe only, this density is even higher, at EUR 87k per sq km.[7] High density of fashion spend supports online retailers by enabling higher fulfillment speed and lower fulfillment costs.

- Online fashion retailers can typically generate gross margins between 40% and 60%. These margins are thus considerably higher than those of other online retail categories such as electronics.[8]

- Mobile devices have significantly contributed to the strong growth of online retail, including in fashion by giving consumers access to fashion anytime and practically anywhere. The number of mobile devices in use in Europe grew from only 208m in 2009 to 480m in 2013. However, the number of European mobile online shoppers only reached 51m in 2013.

1) See Destatis press release “Retail turnover in September 2014” from 31 October 2014: https://www.destatis.de/EN/Press-Services/Press/pr/2014/10/PE14_381_45212.html (dated 13 November 2014).
2) Information concerning the European fashion market relates to Europe excluding Russia.
3) See Euromonitor International, June 2014.
4) CAGR stands for Compounded Annual Growth Rate and is the year-over-year growth rate over a specified period of time. The compound annual growth rate is calculated by taking the nth root of the total percentage growth rate, where n is the number of years in the period being considered.
5) See Euromonitor International, June 2014.
6) See Euromonitor International, June 2014.
7) See Euromonitor International, June 2014.
8) Company information; average of 2013 segment gross margins of publicly available information of selected publicly listed e-commerce companies, including Asos, Yoox and Boohoo.

01.3 RESULTS OF OPERATIONS OF THE GROUP

In the reporting period, the condensed consolidated income statement shows a considerable rise in revenue and a significant improvement in earnings before interest and taxes (EBIT) compared to the prior-year period. This is also reflected in the significant improvement in the adjusted EBIT margin.

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INCOME STATEMENT

IN EUR K	9M 2014	9M 2013	Q3 2014	Q3 2013
Revenue	1,548,481	1,212,404	501,391	403,821
Cost of sales	–903,948	–737,881	–299,106	–252,431
Gross profit	**644,533**	**474,523**	**202,285**	**151,390**
Selling and distribution costs	–565,301	–529,650	–173,923	–173,652
Administrative expenses	–83,668	–75,609	–30,196	–29,746
Other operating income	9,218	6,484	1,391	1,854
Other operating expenses	–3,750	–1,419	–2,115	–786
Earnings before interest and taxes (EBIT)[1]	**1,032**	**–125,671**	**–2,558**	**–50,940**
Other consolidated financial information				
Adjusted EBIT	16,225	–122,088	3,830	–49,922
Adjusted EBIT (as % of revenue)	*1.0 %*	*–10.1 %*	*0.8 %*	*–12.4 %*
EBITDA	20,473	–114,917	4,538	–46,313
Adjusted EBITDA	35,666	–111,334	10,926	–45,295

1) EBIT includes equity-settled share-based compensation expenses as follows:

IN EUR K	9M 2014	9M 2013	Q3 2014	Q3 2013
Equity-settled share-based compensation expense	**15,193**	**3,583**	**6,388**	**1,018**
Cost of sales	3,284	358	1,597	102
Selling and distribution costs	7,254	1,433	3,194	407
Administrative expenses	4,655	1,791	1,597	509

In addition to the performance indicators EBITDA as well as EBIT and EBITDA adjusted for share-based compensation (“adjusted EBIT”, “adjusted EBITDA”), management also uses other performance metrics to steer the Company. The performance metrics key to corporate management developed as follows in the reporting period.

KEY PERFORMANCE METRICS

	9M 2014	9M 2013	Q3 2014	Q3 2013
Site visits (in million)	976.2	860.0	321.7	291.0
Mobile visit share (in % of site visits)	40.0	24.8	43.3	28.2
Active customers (in million)	14.1	12.3	14.1	12.3
Number of orders (in million)	29.8	25.3	9.7	8.2
Average orders per active customer (in number of orders)	2.8	2.7	2.8	2.7
Average basket size (in EUR)	64.7	59.8	64.4	60.7
Revenue (in EUR million)	1,548.5	1,212.4	501.4	403.8
Adjusted fulfillment cost ratio (in % of revenue)	23.2 %	25.7 %	22.7 %	23.5 %
Adjusted marketing cost ratio (in % of revenue)	12.8 %	17.9 %	11.4 %	19.4 %

The fashion trade is exposed to seasonal fluctuations. Typically, the fall and winter collections are sold at higher prices than the spring and summer goods. This means that revenue levels tend to be higher in the second half of the fiscal year than in the first half. In order to estimate the development of revenue and earnings, it therefore makes sense to compare the current reporting period with the comparative prior-year period.

Compared to the corresponding prior-year period, the Zalando Group raised its revenue from EUR 403.8m by 24.2% to EUR 501.4m in the third quarter of 2014. The rise in revenue is mainly attributable to a 18.7% increase in orders and a 6.1% increase in the average basket size. The higher number of customer orders was driven by a 10.5% increase in site visits. The higher traffic on the website also relates to a significant increase in the share of visitors that access the website on their mobile devices. Compared to the corresponding prior-year period, the share of site visits on mobile devices rose by 15.1 percentage points to 43.3% in the third quarter of 2014.

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The Rest of Europe segment generated revenue of EUR 197.8m in the third quarter of 2014 (comparative prior-year period: EUR 141.4m). This corresponds to 39.9% increase in revenue compared to the third quarter of 2013. The strongest revenue segment, the DACH segment, generated revenue of EUR 276.3m in the third quarter of 2014 (comparative prior-year period: EUR 243.4m). This also represents a 13.5% increase on the corresponding prior-year period. Revenue development was also supported by the Other segment, which combines the business activities of the Zalando Lounge and the Group's offline activities. Clothing again remained Zalando's strongest product category in terms of revenue in the third quarter of 2014.

The Zalando Group recorded EBIT of EUR –2.6m in the third quarter of 2014 (comparative prior-year period: EUR –50.9m). This significant improvement in EBIT margin by 12.1 percentage points from –12.6% in the third quarter of 2013 to –0.5% in the third quarter of 2014 relates to enhanced profitability across all key cost items.

In order to assess the operating performance of the business, Zalando management also considers EBIT and the EBIT margin before expenses for equity-settled share-based compensation. The calculated indicators are referred to as "adjusted EBIT" and "adjusted EBIT margin". The adjusted earnings indicators give management an undistorted insight into the development of the Company's operations. The calculation of expenses from share-based payment commitments is based on the frontloading model (graded vesting), which means that expenses from the program continuously decrease over the vesting period. The frontloading effect is also clearly apparent in the nine-month period: As a result of the number of contracts concluded at the end of 2013 and in the middle of 2014, relatively higher expenses burden the fiscal year to date.

Zalando recorded adjusted EBIT of EUR 3.8m in the third quarter of 2014 (comparative prior-year period: EUR –49.9m). This represents a significant improvement of 13.1 percentage points in the adjusted EBIT margin from –12.4% in the third quarter of 2013 to 0.8% in the third quarter of 2014.

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01.4 RESULTS OF OPERATIONS BY SEGMENTS

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SEGMENT REPORTING P.30

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The condensed segment results show a significant improvement in revenue in the Rest of Europe segment and the growing profitability in the established DACH segment.

SEGMENT RESULTS

IN EUR K	9M 2014	9M 2013	Q3 2014	Q3 2013
Revenue	**1,548,481**	**1,212,404**	**501,391**	**403,821**
DACH	870,508	733,572	276,301	243,376
Rest of Europe	597,095	427,423	197,773	141,383
Other	80,878	51,409	27,317	19,062
Earnings before interest and taxes (EBIT)[1]	**1,032**	**–125,671**	**–2,558**	**–50,940**
DACH	29,926	–24,092	7,480	–11,007
Rest of Europe	–33,043	–90,609	–11,666	–34,173
Other	4,149	–10,970	1,628	–5,760
Other segment financial information				
Adjusted EBIT DACH	38,209	–22,093	10,898	–10,432
Adjusted EBIT Rest of Europe	–27,754	–89,536	–9,367	–33,854
Adjusted EBIT Other	5,770	–10,459	2,299	–5,636

1) EBIT includes equity-settled share-based compensation expenses as follows:

IN EUR K	9M 2014	9M 2013	Q3 2014	Q3 2013
Equity-settled share-based compensation expense	**15,193**	**3,583**	**6,388**	**1,018**
DACH	8,283	1,999	3,418	575
Rest of Europe	5,289	1,073	2,299	319
Other	1,621	511	671	124

All segments contributed to the positive EBIT development of the Zalando Group. With an EBIT margin of 2.7%, the DACH segment was again clearly profitable in the third quarter of 2014. Compared to the corresponding prior-year period, the EBIT margin improved by 7.2 percentage points from –4.5% to 2.7%. The Rest of Europe segment generated even more significant profitability gains. Compared to the corresponding prior-year period, the EBIT margin in the Rest of Europe segment improved by 18.3 percentage points from –24.2% to 5.9%. The Other segment recorded an EBIT of EUR 1.6m in the third quarter of 2014 (corresponding prior-year period: EUR –5.8m).

In order to assess the operating performance of the segments, Zalando management also considers EBIT and the EBIT margin before expenses for equity-settled share-based compensation. The calculated indicators are referred to as “adjusted EBIT” and “adjusted EBIT margin”.

The DACH segment generated an adjusted EBIT margin of 3.9% in the third quarter. Compared to the corresponding prior-year period, the adjusted EBIT margin thus improved by 8.2 percentage points from –4.3% to 3.9%. The Rest of Europe segment also significantly improved the adjusted EBIT margin compared to the corresponding prior-year period by 19.2 percentage points from –23.9% to –4.7%. The Other segment recorded an adjusted EBIT of EUR 2.3m in the third quarter of 2014 (corresponding prior-year period: EUR –5.6m).

01.5 FINANCIAL POSITION OF THE GROUP

Zalando generated a positive cash flow from operating activities of EUR 99.9m in the first nine months of the year. The cash inflow from operating activities is mainly attributable to the positive development compared to the corresponding prior-year period of the net income/loss for the period of EUR –0.4m (corresponding prior-year period: EUR –129.0m) and the significantly reduced capital tied up in current assets.

Net working capital, consisting of inventories and trade receivables less trade payables and similar liabilities, amounted to EUR –19.9m as of 30 September 2014 (31 December 2013: EUR 9.7m). The reduction in tied up capital primarily stems from the less pronounced increase in inventories compared to the increase in trade payables and similar liabilities. This improvement is mainly due to a quicker sell-through of inventories, longer payment terms to suppliers and an expansion of the reverse factoring volume.

The cash flow from investing activities of EUR –49.7m (corresponding prior-year period: EUR –78.3m) stems mainly from investments in the fulfillment infrastructure in the fulfillment centers in Erfurt and Mönchengladbach. In addition, there were capital expenditures on software and furniture and fixtures.

Free cash flow rose by EUR 254.3m from EUR –204.1m to EUR 50.2m. This increase is mainly due to the strong improvement of the cash flow from operating activities.

The cash flow from financing activities primarily comprises the repayment of loans. The capital contributions from the IPO were not made until October. Consequently, they have not been included in the cash flow for the first nine months of the year.

In total, cash funds grew by EUR 49.7m since the beginning of the year; resulting in cash and cash equivalents of EUR 466.8m as of 30 September 2014. The Group was able to meet all its payment obligations in a timely manner at all times. The cash inflow from the IPO was not received until after the reporting date.

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01.6 NET ASSETS OF THE GROUP

The development of the Group's net assets was characterized by a 64.3% increase in total assets as of 30 September 2014.

The increase in other current financial assets primarily stems from the recognition of receivables from the proceeds of the IPO of EUR 517.4m. The amount is calculated as the expected proceeds of EUR 525.3m less the base fee of EUR 7.9m. The recognition of the receivable reflects that the transfer of the newly created shares to the investment banks underwriting the IPO had already been conducted as of 30 September 2014.

At the end of the reporting period, inventories mainly relate to goods for the core operating business of the Zalando Group. Inventories increased by EUR 87.2m to EUR 419.7m in the nine-month reporting period on account of the delivery of the fall and winter collection.

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Equity rose from EUR 546.5m to EUR 1,076.9m in the first nine months of the fiscal year. The EUR 530.4m increase almost exclusively relates to the capital increase performed in the course of the IPO. In the reporting period, the equity ratio rose from 51.0% at the beginning of the year by 10.2 percentage points to 61.2% as of 30 September 2014.

Current liabilities increased by EUR 161.1m in the reporting period. This increase is mainly attributable to trade payables and similar liabilities, which rose from EUR 410.0m by EUR 133.2m to EUR 543.2m in the reporting period.

As of the reporting date, there were reverse factoring agreements in place with various suppliers and with a factoring company. In connection with these agreements, supplier receivables due from Zalando totaling EUR 89.1m were transferred to the factor as of 30 September 2014 (31 December 2013: EUR 37.6m). They are recognized under trade payables and similar liabilities in the statement of financial position.

01.7 EMPLOYEES

Compared to 6,754 employees as of 31 December 2013, the headcount rose at the end of the third quarter by 422 to 7,176 on account of sustained high growth.

In order to allow employees to participate even more in the development of business at the Zalando Group, Zalando offered an employee program with preferential allocation in connection with the IPO. All employees of ZALANDO SE and its German subsidiaries were entitled to invest in ZALANDO SE shares. Employees had the opportunity to acquire shares free of charge, at a discount as well as at full price with a guaranteed allocation. The employee program was received very positively. More than 4,000 employees participated and are now Zalando shareholders.

01.8 OPPORTUNITIES AND RISKS

01.8.1 USE OF MOBILE DEVICES

There has been a clear trend towards online shopping using mobile devices in the past nine-month reporting period. Mobile devices have also made a contribution to the strong growth in online retail, as they grant customers access to fashion products anytime and from virtually anywhere.

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Zalando is exposed to the risk of not adequately keeping up with the development and change in technology and accordingly continuing to develop the Zalando app for smart phones as well as the mobile version of the Zalando website. This can have a negative impact on the number of mobile visits/the number of active customers.

On the other hand, mobile devices offer an additional point of contact to our customers and more access to our product range. This thus offers an opportunity for Zalando to expand its revenue potential via mobile devices. Zalando responded early to the increased use of mobile devices by customers by launching its own app for smart phones in December 2012. Before, the mobile version of the Zalando website had already made it possible to access the Group's large product range anywhere. Thanks to the Zalando app, the additional benefits of simple and secure online shopping can also be accessed on mobile devices.

01.8.2 LOCAL ALIGNMENT OF THE PRODUCT RANGE

There can also be differences internationally in the way that customers shop and pay and in their behavior when it comes to returning goods. The local alignment of the product range is an important factor in offering Zalando customers an inspiring and convenient shopping experience and is critical to the Group's success in the heterogeneous European market with its diverse regional demands. The international expansion gives rise to the operational risk of not recognizing the individual wishes of the local customer or their demands and accordingly not being able to adjust the range for the respective country.

Localization is a critical factor for providing an engaging and convenient shopping experience for our customers and is decisive for the success in the diverse European market, with its broad variety of local consumer tastes. We have created very localized front ends: We offer local websites tailored to domestic needs, including country-specific assortment, local online catalogue sorting, visual merchandizing and marketing campaigns. Localization distinguishes us from pure global operators through stronger adjustment to local customer preferences. At the same time, our operations across Europe use one centralized platform and infrastructure for sourcing, fulfillment and technology. We believe this approach enables us to reach scale effects differentiating us from small local players.

01.8.3 DATA PROTECTION

Data protection plays an ever important role in an increasingly networking world. The website, networks and other data systems transfer, process and save sensitive data of the Group's customers, suppliers and other parties including credit card information and other confidential data. Service providers also manage data for Zalando. This data must be protected from unauthorized access in order to retain their security, confidentiality and integrity. The same applies for confidential internal data on business planning and strategies. Zalando counters the risk of data breaches by using and constantly updating the latest encryption and authentication technologies.

01.8.4 REPUTATION AND IMAGE IN LIGHT OF CRITICAL REPORTING

Zalando has, in a very short space of time, created a brand which has achieved extremely high brand awareness levels in most European countries. The brand was established through targeted communication in the areas of fashion, technology and retail in the international media. Zalando holds regular discussions with specialized journalists on relevant topics. The general public is provided with facts and information on each area on the Group's website. Nevertheless, Zalando has been subject to critical reporting, which could harm Zalando's image and thus the economic situation of the Group. This qualifies as a latent risk.

Thanks to Zalando's corporate communications as well as governance, risk and compliance structures in place, the Company is organized in a way that enables it to quickly react to such reports, to clarify them and to take appropriate preventative measures.

01.8.5 OVERALL ASSESSMENT

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Apart from those opportunities and risks mentioned under anticipated development, there have been no major changes since the time this interim management report was prepared compared to the 2013 group management report.

01.9 OUTLOOK 2014

01.9.1 FUTURE GENERAL ECONOMIC AND INDUSTRY-SPECIFIC SITUATION

The European fashion market[9] recorded retail revenue totaling around EUR 420b in 2013[10]. As Europeans are spending more and more time online, the target market is increasingly moving towards online shopping. While fashion retail revenue in Europe remained stable overall between 2008 and 2013, fashion retail revenue generated online more than doubled from EUR 16b in 2008 to EUR 38b in 2013. This increase represents a CAGR of 19%.[11] Zalando believes that this trend will continue as the share of people among the general population who are already familiar with technology at a young age will grow further.

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The following trends impact the Zalando's target market:

- **Easy access, everywhere, anytime:** Spending time online has become an increasingly integral part of day-to-day behaviors and an increasing priority for people when allocating their time.

- **Selection:** Online shopping offers a large selection that can be browsed quickly. Where selection is of prime importance, online retailers are at an advantage over offline retailers. Online retailers can also track user behavior to promote products in line with consumer preferences.

- **Convenience:** Online shopping gives customers the ability to order merchandise any time and from almost any place, as well as a wider selection of the most current assortment, high levels of availability and home delivery as well as easy returns.

- **Entertainment:** Online shopping enables consumers to 'window shop' the latest trends and products, with an emphasis on inspiration.

Mobile devices have significantly contributed to the strong growth of online retail, including in fashion by giving consumers access to fashion anytime and practically anywhere. The number of mobile devices in use in Europe grew from only 208m in 2009 to 480m in 2013 and is expected to further grow with a CAGR of 12% to 852m in 2018. As a result, the number of European mobile online shoppers is expected to grow from 51m in 2013 to 110m in 2018 representing a 17% CAGR.[12]

9) Information concerning the European fashion market relates to Europe excluding Russia.
10) Euromonitor International, June 2014.
11) Euromonitor International, June 2014.
12) See IDC, Worldwide New Media Market Model, 2H13, May 2014.

The European online retail market had total sales of EUR 170b in 2013 with a CAGR of 16% since 2008. While online retail penetration in North America amounted to 6.7% in 2013, the online retail penetration in our target market Europe grew from 2.6% in 2008 to 5.3% in 2013.[13] We expect that online penetration in Europe will continue to rise, following the trend in North America.

Categories that consist of easily comparable, price-transparent, commoditized items such as consumer electronics or toys & games, have demonstrated an earlier increase in online retail penetration compared with other categories such as fashion products with only 9% online retail penetration in our target market.[14] As e-commerce models evolve and consumers become more comfortable shopping online, we believe that online penetration in emotional consumer categories like fashion will continue to rise.

Thanks to the focus on the European market as well as the established infrastructure and the achieved brand awareness, Zalando is convinced that it is well positioned to benefit from these favorable market conditions. The high emotional value placed on fashion brands by both suppliers and consumers gives independent and pure-play fashion e-commerce players, such as ourselves, a significant advantage over general e-commerce retailers.

HDE REVENUE FORECAST

The German Retail Federation (HDE) forecasts revenue growth for the German retail trade of 1.8%—despite setbacks towards the end of the summer—for the whole of 2014 compared to the prior year. For online trade HDE anticipates revenue growth of 17.0% this year.[15]

By contrast, IFH Retail Consultants GmbH forecasts growth of 13.4% for the entire e-commerce area in 2014 and even 14.3% growth in fashion e-commerce. Overall, significant double-digit growth rates are expected for online retail in Germany.[16]

13) See Euromonitor International, June 2014.
14) See Euromonitor International, June 2014.
15) See HDE's 2014 revenue forecasts, available online (in German) at http://www.einzelhandel.de/index.php/presse/aktuellemeldungen/item/124552-hde-bestätigt-umsatzprognose-für-2014-e-commerce-als-wachstumsmotor (from 11 November 2014).
16) See IFH Retail Consultants, industry report online retail 2014.

01.9.2 FUTURE MARKET DEVELOPMENT OF THE ZALANDO GROUP

Following the successful first three quarters of 2014 with revenue of over EUR 1.5b in total (corresponding prior-year period: EUR 1.2b), we expect similarly high revenue growth of 20% to 25% and an improved EBIT margin for the remainder of fiscal year 2014 compared to the prior year. EBIT reached a break-even level at the end of the past nine-month period. The EBIT margin came to 0.1% for the nine-month period ending 30 September 2014; the adjusted EBIT margin totaled 1.0%.

In the past, the Company typically reports weaker business development in the first half of a fiscal year than in the second half of the year. Furthermore, the fourth quarter generally records stronger margins than in the past third quarter. In light of this, we anticipate closing fiscal 2014 slightly profitable. Performance indicators are expected to develop similarly positively. In the 2013 group management report, the Company expected to generate a significantly improved, but still negative EBIT.

01.9.3 OVERALL STATEMENT BY THE MANAGEMENT BOARD OF ZALANDO SE ON MEDIUM-TERM DEVELOPMENT

Overall, the management board considers the development of the third quarter of 2014 and the economic situation of the Zalando Group to be very positive. In the past nine-month period of 2014, the EBIT break-even point was reached at group level.

ENDING

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

Berlin, November 2014

The management board

02

3/4 2014 | INTERIM CONSOLIDATED FINANCIAL STATEMENTS

OTHER FACTS

>500
TECH EXPERTS

12
LABELS EXCLUSIVELY DESIGNED FOR ZALANDO

>250
DESIGNERS AND PRODUCT MANAGERS

>20
PAYMENT METHODS

02.1 CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

IN EUR K	9M 2014	9M 2013*	Q3 2014	Q3 2013*
Revenue	1,548,481	1,212,404	501,391	403,821
Cost of sales	–903,948	–737,881	–299,106	–252,431
Gross profit	**644,533**	**474,523**	**202,285**	**151,390**
Selling and distribution costs	–565,301	–529,650	–173,923	–173,652
Administrative expenses	–83,668	–75,609	–30,196	–29,746
Other operating income	9,218	6,484	1,391	1,854
Other operating expenses	–3,750	–1,419	–2,115	–786
Earnings before interest and taxes (EBIT)	**1,032**	**–125,671**	**–2,558**	**–50,940**
Interest income	102	245	22	54
Interest expense	–2,718	–2,213	–973	–717
Other financial result	1,789	–684	1,721	–228
Financial result	**–827**	**–2,652**	**770**	**–891**
Earnings before taxes (EBT)	**205**	**–128,323**	**–1,788**	**–51,831**
Income taxes	–570	–659	1,270	–519
Net income/loss for the period	**–365**	**–128,982**	**–518**	**–52,350**
Thereof net income/loss attributable to the shareholders of ZALANDO SE	–365	–128,982	–518	–52,350
Net income/loss for the period as a percentage of revenue	0.0 %	–10.6 %	–0.1 %	–13.0 %
Basic earnings per share (in EUR)	0.00	–0.59	0.00	–0.24
Diluted earnings per share (in EUR)	0.00	–0.59	0.00	–0.24

IN EUR K	9M 2014	9M 2013*	Q3 2014	Q3 2013*
Net income/loss for the period	**–365**	**–128,982**	**–518**	**–52,350**
Items recycled to profit or loss in subsequent periods				
Effective portion of gains/losses from cash flow hedges, net of tax	156	538	–157	0
Exchange differences on translation of foreign financial statements	217	16	0	119
Other comprehensive income	**373**	**554**	**–157**	**119**
Total comprehensive income	**8**	**–128,428**	**–675**	**–52,231**
Thereof net income/loss attributable to the shareholders of ZALANDO SE	8	–128,428	–675	–52,231

* The presentation of government grants was changed in the reporting period. For additional explanations, we refer to section B in the notes to the 2013 consolidated financial statements.

02.2 CONSOLIDATED STATEMENT OF FINANCIAL POSITION

ASSETS

IN EUR K	30 SEP 2014	31 DEC 2013
Non-current assets		
Intangible assets	26,122	21,265
Property, plant and equipment	112,125	105,734
Other financial assets	48,916	48,053
Deferred tax assets	869	1,017
	188,032	*176,069*
Current assets		
Inventories	419,728	332,526
Prepayments	442	795
Trade and other receivables	103,549	87,241
Other financial assets	539,383	13,454
Other non-financial assets	42,773	44,482
Cash and cash equivalents	466,846	417,161
	1,572,721	*895,659*
Total assets	**1,760,753**	**1,071,728**

EQUITY AND LIABILITIES

IN EUR K	30 SEP 2014	31 DEC 2013
Equity		
Issued capital	244,762	118
Capital reserves	1,119,027	833,264
Retained earnings	102	–271
Accumulated loss	–286,965	–286,600
	1,076,926	*546,511*
Non-current liabilities		
Provisions	5,467	4,692
Government grants	3,204	1,449
Financial liabilities	16,425	16,973
Other financial liabilities	242	2,948
Other non-financial liabilities	1,364	3,116
	26,702	*29,178*
Current liabilities		
Provisions	541	0
Financial liabilities	3,243	3,243
Trade payables and similar liabilities	543,175	410,022
Prepayments received	12,913	7,353
Income tax liabilities	317	126
Other financial liabilities	44,220	34,946
Other non-financial liabilities	52,716	40,349
	657,125	*496,039*
Total equity and liabilities	**1,760,753**	**1,071,728**

02.3 CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY 9M 2014

IN EUR K	ISSUED CAPITAL	CAPITAL RESERVES
As of 1 Jan 2014	**118**	**833,264**
Net income/loss for the period	0	0
Other comprehensive income	0	0
Total comprehensive income	**0**	**0**
Capital increase	24,594	500,808
Capital increase from company funds	220,050	–220,050
Transaction costs	0	–10,188
Share-based payments	0	15,193
As of 30 Sep 2014	**244,762**	**1,119,027**

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY 9M 2013

IN EUR K	ISSUED CAPITAL	CAPITAL RESERVES
As of 1 Jan 2013	**111**	**628,625**
Net income/loss for the period	0	0
Other comprehensive income	0	0
Total comprehensive income	**0**	**0**
Capital increase	3	0
Share-based payments	0	3,583
As of 30 Sep 2013	**114**	**632,208**

Retained earnings			
CASH FLOW HEDGES	CURRENCY TRANSLATION	ACCUMULATED LOSS	TOTAL
–144	**–127**	**–286,600**	**546,511**
0	0	–365	–365
156	217	0	373
156	**217**	**–365**	**8**
0	0	0	525,402
0	0	0	0
0	0	0	–10,188
0	0	0	15,193
12	**90**	**–286,965**	**1,076,926**

Retained earnings			
CASH FLOW HEDGES	CURRENCY TRANSLATION	ACCUMULATED LOSS	TOTAL
–499	**–33**	**–170,008**	**458,196**
0	0	–128,982	–128,982
538	16	0	554
538	**16**	**–128,982**	**–128,428**
0	0	0	3
0	0	0	3,583
39	**–17**	**–298,990**	**333,354**

02.4 CONSOLIDATED STATEMENT OF CASH FLOWS

IN EUR K			9M 2014	9M 2013	Q3 2014	Q3 2013
1.		Net income/loss after tax	–365	–128,982	–518	–52,350
2.	+	Non-cash expenses from share-based payments	15,193	3,583	6,388	1,019
3.	+	Amortization and depreciation of non-current assets	19,441	10,754	7,096	4,627
4.	+	Increase in provisions	684	139	586	82
5.	+/–	Other non-cash expenses/income	–1,449	544	–149	544
6.	–	Increase in inventories	–87,202	–149,808	–140,343	–136,159
7.	–/+	Increase/decrease in trade receivables	–16,308	–22,224	12,153	–3,739
8.	+	Increase in other assets/liabilities	26,080	32,773	17	22,160
9.	+	Increase in trade payables and similar liabilities	143,852	127,470	212,640	170,947
10.	**=**	**Cash flow from operating activities**	**99,926**	**–125,751**	**97,870**	**7,131**
11.	–	Cash paid for investments in property, plant and equipment	–34,276	–49,186	–11,560	–18,887
12.	–	Cash paid for investments in intangible assets	–14,939	–14,532	–6,011	–6,916
13.	–/+	Increase/decrease in restricted cash	–526	–14,628	59	–1,245
14.	**=**	**Cash flow from investing activities**	**–49,741**	**–78,346**	**–17,512**	**–27,048**
15.	+	Cash received from capital increases by the shareholders less transaction costs	47	3	0	3
16.	+	Cash received from loans	1,885	7,440	0	3,726
17.	–	Cash repayments of loans	–2,432	–2,433	–810	–811
18.	**=**	**Cash flow from financing activities**	**–500**	**5,010**	**–810**	**2,918**
19.	=	Net change in cash and cash equivalents	49,685	–199,087	79,548	–16,999
20.	+	Cash and cash equivalents at the beginning of the fiscal year	417,161	382,307	387,298	200,219
21.	**=**	**Cash and cash equivalents as of 30 Sep**	**466,846**	**183,220**	**466,846**	**183,220**

02.5 CONDENSED NOTES TO THE CONSOLIDATED INTERIM FINANCIAL STATEMENTS

02.5.1 CORPORATE INFORMATION

The condensed interim financial statements as of 30 September 2014 were released for publication by resolution of the management board on 24 November 2014.

ZALANDO SE is a European stock corporation founded in Germany. ZALANDO SE, Berlin, is the parent of the Zalando Group ("Zalando" or the "Group").

ZALANDO SE arose from a reorganization of Zalando AG. Zalando AG changed its legal form from a German stock corporation (AG) to a European stock corporation (SE) by way of merger by assumption of Zalando PLC, London, United Kingdom, (transferring entity). Zalando PLC was a wholly owned subsidiary of Zalando AG. The merger and change in legal form took effect upon entry into the commercial register of Berlin-Charlottenburg local court on 28 May 2014.

On 11 July 2014 an extraordinary general meeting of ZALANDO SE passed a resolution to convert the registered shares of the Company into ordinary bearer shares with no-par value (Stückaktien), retaining the current number of shares.

On 30 July 2014, ZALANDO SE and certain subsidiaries concluded a revolving credit facility of EUR 200m with some of the IPO (initial public offering) underwriting syndicate banks or their affiliates. This facility can be drawn in various currencies. The revolving credit facility can be utilized for the general business purposes (including acquisitions) of the Group as well as for guarantees. The facility expires on 30 July 2019. The facility had not yet been utilized as of 30 September 2014.

Zalando shares have been traded on the regulated market (Prime Standard) of the Frankfurt stock exchange since 1 October 2014.

The listing was preceded by an offer for the sale of 28,147,656 no-par value ordinary bearer shares (Stückaktien) with an imputed share in share capital of EUR 1.00 each with dividend entitlement as of 1 January 2014. The offer comprised 24,476,223 new, no-par value bearer shares (Stückaktien) from the IPO capital increase and 3,671,433 no-par value bearer shares (Stückaktien) in connection with a potential over-allotment.

Investors had the option to purchase shares from 18 September 2014 to 29 September 2014 in an offering range of EUR 18.00 to EUR 22.50. The extraordinarily high demand from investors significantly exceeded the number of shares offered for purchase. The offering was oversubscribed well in excess of ten times at the high end of the price range. The Company set the issue price per share at EUR 21.50 on 29 September 2014.

In the course of the IPO, Zalando generated a cash inflow of EUR 517.4m, after deducting the base fee withheld by banks. The Greenshoe option granted by the underwriters, which could have been utilized until 27 October 2014, was not exercised.

02.5.2 GENERAL

ZALANDO SE, Berlin, is the parent of the Zalando Group ("Zalando" or the "Group"). The condensed and unaudited interim consolidated financial statements as of 30 September 2014 of ZALANDO SE comply with the International Financial Reporting Standards (IFRSs) 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. Moreover, 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 31 December 2013.

Unless otherwise specified below and in section 02.5.3 of the notes to the condensed interim consolidated financial statements, the accounting policies applied for the consolidated financial statements as of 31 December 2013 were also applied unchanged in the preparation of the interim consolidated financial statements for the period ending 30 September 2014.

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

The condensed interim consolidated financial statements are presented in euros.

02.5.3 NEW ACCOUNTING STANDARDS ISSUED BY THE IASB

APPLICABLE STANDARDS

Pursuant to Regulation (EC) No. 1606/2002 in conjunction with Sec. 315a (1) HGB ("Handelsgesetzbuch": German Commercial Code), 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 2014 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 for the first time.

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 results 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. IFRS 10 did not have any impact on the investments of the Group held as of the end of the reporting period.

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 do not have any significant impact on the Group's reporting.

In addition, the IASB has released other standards and amendments to standards applicable in 2014 for the first time but which do not have any impact on the consolidated financial statements of Zalando.

NEW ACCOUNTING STANDARDS ISSUED BY THE IASB NOT YET APPLICABLE IN THE 2014 REPORTING PERIOD

The standards and interpretations that are issued, but not yet mandatory, 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 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 now 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. These additions involved the introduction of a new general model for hedge accounting that broadens the scope of the hedged items and hedging instruments that can be used.

The IASB published its final version of the standard in the course of completing the various stages of its comprehensive project on financial instruments in July 2014. This final version now also includes the new regulations on the impairment of financial assets with certain individual regulations under IFRS 9 on the classification and measurement of financial assets having been amended.

The newly published version of IFRS 9 replaces all previous versions. Mandatory first-time application is set for fiscal years beginning on or after 1 January 2018. Early adoption is permitted subject to the EU endorsement which has not yet been scheduled. We have begun analyzing the impact of IFRS 9 and not yet decided on whether to early adopt.

IFRS 15—Revenue from Contracts with Customers
IFRS 15 was published by the IASB in May 2014 and replaces IAS 18 Revenue, IAS 11 Construction Contracts and a number of interpretations relating to revenue. IFRS 15 regulates when and in what amount revenue is recognized. Furthermore, preparers of financial statements are calling for the users of financial statement to be provided with more informative and relevant information than previously. IFRS 15 applies for almost all contracts with customers—the main exceptions are leases, financial instruments and insurance contracts.

IFRS 15 is effective for the first time for reporting periods beginning on or after 1 January 2017 (subject to being adopted in the EU endorsement). Early adoption is permitted. We have begun analyzing the impact of IFRS 15 and not yet decided on whether to early adopt.

In addition, the IASB has released other standards and amendments to standards which are not expected to have any impact on the consolidated financial statements of Zalando.

02.5.5 EQUITY

The **issued capital** of the parent company was increased by a total of EUR 0.1m to EUR 0.2m in May 2014 as part of a capital increase in cash and has been paid in full. All shareholders participated in the increase in accordance with their shareholding.

FURTHER INFORMATION
CONSOLIDATED STATEMENT OF FINANCIAL POSITION P.20

By resolution of an extraordinary general meeting of the shareholders on 11 July 2014, the issued capital was increased by EUR 220.1m, increasing it from EUR 0.2m to EUR 220.3m, by conversion of the capital reserves of the Company into issued capital. In addition, the registered shares of the Company were converted into ordinary bearer shares with no-par value, retaining the current number of shares.

In addition, new shares were issued within the framework of the IPO for an amount of EUR 24.5m.

Upon entry of these capital adjustments in the commercial register and the issue of new shares, the issued capital of the Company comes to EUR 244.8m as of 30 September 2014, issued in the form of ordinary bearer no-par value shares (Stückaktien).

Each share represents an imputed share of issued capital of EUR 1.00. Each share entitles the bearer to one vote at the Company's annual general meeting. There are no restrictions on voting rights. The shares are entitled to participate in dividends for fiscal years beginning on or after 1 January 2014.

The **capital reserves** amount to EUR 1,119.0m (prior year: EUR 833.3m). Up until 30 September 2014 contributions were paid under the share-based payment plans pursuant to IFRS 2 amount to EUR 15.2m (prior year: EUR 5.3m) and capital reserves of EUR 220.1m were converted into issued capital. The share-based payments include the free and discounted shares granted as part of the employee program and amount to EUR 0.9m. An amount of EUR 500.8m was added to the capital reserves in the course of the IPO capital increase.

The transaction costs associated with the procurement of capital from the IPO of EUR 11.5m were deducted from the capital reserves after considering the income tax benefit of EUR 1.4m. The capital procurement costs offset against the reserves without affecting income at the end of the quarter do not yet include the bank charges that are voluntarily payable by Zalando of a maximum of EUR 7.9m. As of 30 September 2014 these voluntary payable charges do not meet the recognition criteria for liabilities.

The accumulated loss results from the loss carryforwards of past reporting periods and the result of the current reporting period.

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

02.5.6 EARNINGS PER SHARE

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

EPS BASIC

	9M 2014	9M 2013	Q3 2014	Q3 2013
Net income/net loss for the period (EUR k)	–365	–128,982	–518	–52,350
Basic weighted average number of shares (thousands)	220,376	220,279	220,552	220,279
Earnings per share (EUR)	**0.00**	**–0.59**	**0.00**	**–0.24**

EPS DILUTED

	9M 2014	9M 2013	Q3 2014	Q3 2013
Net income/net loss for the period (EUR k)	–365	–128,982	–518	–52,350
Diluted weighted average number of shares (thousands)	220,376	220,279	220,552	220,279
Earnings per share (EUR)	**0.00**	**–0.59**	**0.00**	**–0.24**

The net result attributable to the shareholders of ZALANDO SE increased in the reporting period by EUR 128.6m from EUR –129.0m in the nine-month period ending 30 September 2013 to EUR –0.4m in the nine-month period ending 30 September 2014. The basic earnings per share improved from EUR –0.59 in the nine-month period ending 30 September 2013 to EUR 0.00 in the nine-month period ending 30 September 2014. For the current reporting period, diluted earnings per share compute to EUR 0.00 per share.

02.5.7 STATEMENT OF CASH FLOWS

The cash flows from operating activities include interest paid of EUR 2.1m (prior year: EUR 1.9m), interest received of EUR 0.1m (prior year: EUR 0.2m) and income taxes paid of EUR 0.1m (prior year: EUR 0.6m).

Cash and cash equivalents comprise cash at banks and cash on hand as well as shares in money market funds. Shares in money market funds amount to EUR 50.0m as of 30 September 2014 (prior year: EUR 0m).

FURTHER INFORMATION
CONSOLIDATED STATEMENT OF CASH FLOWS P.24

02.5.8 TRADE PAYABLES AND SIMILAR LIABILITIES

Trade payables and similar liabilities also contain the obligations from reverse factoring agreements of EUR 89.1m (prior year: EUR 37.6m). Zalando has concluded reverse factoring agreements with various suppliers and with a factoring company. Under these agreements the factor purchases the respective supplier receivables due from the Zalando Group.

02.5.9 OTHER FINANCIAL ASSETS

Other current financial assets primarily consist of receivables from the proceeds of the IPO of EUR 517.4m. The amount is calculated as the expected proceeds of EUR 525.3m less the base fee of EUR 7.9m. The recognition of the receivable reflects that the transfer of the newly created shares to the investment banks underwriting the IPO had already been conducted as of 30 September 2014. Cash resulting from the IPO was not received until after the reporting date.

02.5.10 SEGMENT REPORTING

FURTHER INFORMATION
01.4.1 RESULTS OF OPERATIONS BY SEGMENTS P.10

The management board measures the performance of the segments on the basis of the EBIT calculated in accordance with IFRSs. 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.

International expansion as well as the increasing establishment in the markets supplied by Zalando has resulted in an increasing diversification of revenue distribution across the different segments. For its reporting pursuant to IFRSs, the sales channel Zalando Shop is further divided into the geographic regions DACH (Germany, Austria and Switzerland) and Rest of Europe (all other countries in which we operate). All other sales channels are included in the Other segment.

The segments developed as follows over the nine-month period:

SEGMENT REPORTING 9M 2014

IN EUR K	DACH	REST OF EUROPE	OTHER	9M 2014
Revenue	870,508	597,095	80,878	1,548,481
Earnings before interest and taxes (EBIT)	**29,926**	**–33,043**	**4,149**	**1,032**

SEGMENT REPORTING 9M 2013

IN EUR K	DACH	REST OF EUROPE	OTHER	9M 2013
Revenue	733,572	427,423	51,409	1,212,404
Earnings before interest and taxes (EBIT)	**–24,092**	**–90,609**	**–10,970**	**–125,671**

The segments generated the following revenue and earnings before interest and taxes in the third quarter of 2014:

SEGMENT REPORTING Q3 2014

IN EUR K	DACH	REST OF EUROPE	OTHER	Q3 2014
Revenue	276,301	197,773	27,317	501,391
Earnings before interest and taxes (EBIT)	**7,480**	**–11,666**	**1,628**	**–2,558**

SEGMENT REPORTING Q3 2013

IN EUR K	DACH	REST OF EUROPE	OTHER	Q3 2013
Revenue	243,376	141,383	19,062	403,821
Earnings before interest and taxes (EBIT)	**–11,007**	**–34,173**	**–5,760**	**–50,940**

The Group’s financial result is not allocated to the segments.

02.5.11 RELATED PARTY DISCLOSURES

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. Since December 2013, the entity, Bestseller A/S, Brande, Denmark, is a shareholder and related party of the Zalando Group. In addition, there are framework agreements in place with Bestseller A/S, Brande, Denmark, on the procurement of goods. Goods of EUR 57.2m were purchased within the framework of this relationship in the nine-month reporting period from 1 January to 30 September 2014.

Morgan Stanley acted as a stabilization manager in connection with the initial public offering for the account of the syndicate banks and was therefore able to overallot subscriptions and undertake stabilization measures to support the market price of the shares of the Company and thus counteract any downwards pressure from the sale. In the course of one such overallotment, the stabilization manager was provided with 2,008,380 shares from the holding of Rocket Internet AG, Berlin, Germany, in a securities lending transaction.

FURTHER INFORMATION
02.5.1 CORPORATE INFORMATION
P.25

02.5.12 SUBSEQUENT EVENTS

Reference is made to the disclosures made in **Section 02.5.1** with regard to the events that occurred during the IPO.

Other than these, no other significant events occurred subsequent to the reporting date that could have a material influence on the earnings, financial position and cash flows of the Group.

Berlin, 24 November 2014

The management board

ROBERT GENTZ
MEMBER OF THE MANAGEMENT BOARD OF ZALANDO SE

DAVID SCHNEIDER
MEMBER OF THE MANAGEMENT BOARD OF ZALANDO SE

RUBIN RITTER
MEMBER OF THE MANAGEMENT BOARD OF ZALANDO SE

02.6 REVIEW REPORT

To ZALANDO SE

We have reviewed the interim condensed consolidated financial statements, comprising of 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 1 January 2014 to 30 September 2014, which are part of the quarterly financial report pursuant to Sec. 37x (3) WpHG ("Wertpapierhandelsgesetz": German Securities Trading Act). The preparation of the interim condensed 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 interim condensed consolidated financial statements and the interim group management report based on our review.

We conducted our review of the interim condensed 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 interim condensed consolidated financial statements are not prepared, in all material respects, in accordance with IFRSs 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 interim condensed consolidated financial statements are not prepared, in all material respects, in accordance with IFRSs 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, 24 November 2014

Ernst & Young GmbH
Wirtschaftsprüfungsgesellschaft

Ludwig	Dr. Röders
Wirtschaftsprüfer	Wirtschaftsprüfer
(German Public Auditor)	(German Public Auditor)

03.1 GLOSSARY

Performance indicators included in this management are defined as follows.

Active customers
We define active customers as the number of customers placing at least one order in the last twelve months in the measurement period, irrespective of cancelations or returns.

Adjusted fulfillment cost ratio
We define Adjusted Fulfillment Cost Ratio as fulfillment costs before equity-settled share-based compensation expense divided by revenue for the measurement period. Fulfillment costs include outbound logistics, content creation, service and payment expenses, as well as allocated respective overhead costs and expenses for bad debt allowances. Fulfillment costs thus comprise all selling and distribution costs, except for marketing costs.

Adjusted marketing cost ratio
We define Adjusted Marketing Cost Ratio as marketing costs before equity-settled share-based compensation expense divided by revenue for the measurement period. Marketing costs consist of advertising expenses, including search engine marketing, television, online display and other marketing channels, as well as allocated respective overhead costs.

Apps
Applications designed to optimize internet usage with respect to a specific task using a mobile or “smart” telephone.

Average basket size
We define Average Basket Size as the Gross Merchandise Volume after cancelations and returns that customers spend divided by the number of delivered orders in the measurement period. Gross Merchandise Volume is defined as the total amount spent by our customers (including VAT) less cancelations and returns in the relevant measurement period.

Average orders per active customer
We define Average Orders per active customer as Number of Orders of the last twelve months divided by active customers.

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

Free cash flow
Cash flow from operating activities minus cash flow from investing activities.

Mobil visit share (%)

We define the share of site visits from mobile devices (%) as the number of visits via m.sites, t.sites or apps divided by the total number of Site Visits in the measurement period.

m.sites

Internet websites designed to be accessed via mobile or “smart” telephones that provide their user with internet access.

Number of orders

We define Number of Orders as the number of customer orders placed in the measurement period irrespective of cancelations or returns. An order is counted on the day the customer places the order. Orders placed and orders delivered may differ due to orders that are in transit at the end of the measurement period or have been cancelled.

Service

We define services as the services we offer by way of our hotline.

Site visits

We define Site visits as the number of series of page requests from the same device and source (either via websites, m.sites, t.sites and apps) in the measurement period. A visit is considered ended when no requests have been recorded in more than 30 minutes.

t.sites

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

03.2 FINANCIAL CALENDAR 2015

DATE	ACTION
Thursday, 5 March	Publication of the Full-Year Results 2014
Tuesday, 12 May	Publication of the First Quarter Results 2015
Thursday, 13 August	Publication of the Half-Year Results 2015
Thursday, 12 November	Publication of the Nine Month Results 2015

03.3 IMPRINT

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PICTURE CREDITS

Zalando Lookbook AW 2014/2015, photographer: Ben Weller.
You can find more information here.

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 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.de/de/ir.








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