

NINE MONTHS REPORT

JANUARY – SEPTEMBER 2016



ZALANDO AT A GLANCE

KEY FIGURES

| | JUL 1– SEP 30, 2016 | JUL 1– SEP 30, 2015 | JAN 1– SEP 30, 2016 | JAN 1– SEP 30, 2015 |
|---|------------------------|------------------------|------------------------|------------------------|
| Group key performance indicators | | | | |
| Site visits (in millions) | 468.6 | 393.9 | 1,428.4 | 1,198.6 |
| Mobile visit share (in %) | 67.0 | 58.8 | 64.6 | 56.0 |
| Active customers (in millions) | 19.2 | 17.2 | 19.2 | 17.2 |
| Number of orders (in millions) | 16.4 | 13.8 | 49.6 | 39.9 |
| Average orders per active customer | 3.4 | 3.0 | 3.4 | 3.0 |
| Average basket size (in EUR) | 62.8 | 63.3 | 65.1 | 66.3 |
| Adjusted marketing cost ratio (in % of revenue) | 9.5 | 12.3 | 10.2 | 12.0 |
| Adjusted fulfillment cost ratio (in % of revenue) | 24.0 | 27.1 | 23.7 | 26.8 |
| Results of operations | | | | |
| Revenue (in EUR m) | 834.8 | 713.1 | 2,547.4 | 2,089.7 |
| EBIT (in EUR m) | 12.7 | -27.8 | 106.4 | 23.0 |
| EBIT (in % of revenue) | 1.5 | -3.9 | 4.2 | 1.1 |
| Adjusted EBIT (in EUR m) | 19.5 | -23.5 | 120.7 | 35.7 |
| Adjusted EBIT (in % of revenue) | 2.3 | -3.3 | 4.7 | 1.7 |
| Financial position | | | | |
| Net working capital (in EUR m) | -157.9 | -2.6* | -157.9 | -2.6* |
| Equity ratio (in % of total liabilities) | 54.2 | 60.1* | 54.2 | 60.1* |
| Cash flow from operating activities (in EUR m) | 63.0 | 18.3 | 210.7 | 41.6 |
| Cash flow from investing activities (in EUR m) | -122.7 | -63.5 | -210.0 | -171.4 |
| Cash and cash equivalents (in EUR m) | 976.4 | 924.9 | 976.4 | 924.9 |
| Other | | | | |
| Employees (as of the reporting date) | 11,239 | 9,987* | 11,239 | 9,987* |
| Basic earnings per share (in EUR) | 0.02 | -0.12 | 0.24 | 0.08 |

*} As of Dec 31, 2015

OTHER FACTS Q3 2016

17.1%

SALES GROWTH COMPARED TO Q3 2015

19.2M

ACTIVE CUSTOMERS

EUR **12.7** M

EBIT

13.2%

MORE AVERAGE ORDERS PER ACTIVE CUSTOMER COMPARED TO Q3 2015

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



3/4 2016

INTERIM GROUP MANAGEMENT REPORT

OTHER FACTS

11,239

EMPLOYEES

1,596

TECH EMPLOYEES

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 size of the internet retailing market 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. At 8.4%, the 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 2015.¹

Initial reactions from the German fashion sector concerning the development during the third quarter of 2016 suggest no turnaround following the weak performance seen in the second quarter, but rather a further decline in performance. According to the *Textilwirtschaft* journal, the total fashion trade declined in all three months compared to the same period of last year. In September, this development was most pronounced where temperatures were significantly above the historical average. As a result, this month closed with a decline of 16% year-on-year according to *Textilwirtschaft*.² Sales data compiled by GfK for the German market indicates that online fashion retailers also recorded a decrease of 2.4% year-on-year in September, but thanks to an increase in volume of discounted summer garments the sector was more successful at absorbing the unfavorable conditions on the market.³

As a result of the continuing strong growth in online fashion, we see **significant 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 convenient access to 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.⁴
- 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%, considerably higher than those of online retailers in other consumer product categories, e.g., electronics.⁵



WWW.EUROMONITOR.COM



SKIP TO P. 6

1) Euromonitor International
2) *Textilwirtschaft*
3) Gesellschaft für Konsumforschung
4) Euromonitor International; Europe excl. Russia
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
P. 21

In the reporting period, the condensed consolidated income statement for the third quarter of 2016 continues to show **positive revenue growth** compared to the corresponding prior-year period. Zalando outgrew the overall European fashion market generating revenue growth of 17.1% compared to the prior-year period thereby continuing to gain market share. Revenue growth slowed somewhat due to both the unfavorable market environment and the strong prior-year quarter. At the same time, Zalando improved its profitability significantly as it made a conscious trade-off between growth and profitability in the third quarter 2016.

01 NINE MONTHS CONSOLIDATED INCOME STATEMENT

| IN EUR M | JAN 1– SEP 30, 2016 | AS % OF REVENUE | JAN 1– SEP 30, 2015 | AS % OF REVENUE | CHANGE |
|--|------------------------|--------------------|------------------------|--------------------|---------------|
| Revenue | 2,547.4 | 100.0% | 2,089.7 | 100.0% | 0.0pp |
| Cost of sales | -1,436.4 | -56.4% | -1,156.7 | -55.4% | -1.0pp |
| Gross profit | 1,111.0 | 43.6% | 933.0 | 44.6% | -1.0pp |
| Selling and distribution costs | -870.2 | -34.2% | -817.0 | -39.1% | 4.9pp |
| Administrative expenses | -138.2 | -5.4% | -95.0 | -4.5% | -0.9pp |
| Other operating income | 6.3 | 0.2% | 6.7 | 0.3% | -0.1pp |
| Other operating expenses | -2.5 | -0.1% | -4.7 | -0.2% | 0.1pp |
| Earnings before interest and taxes (EBIT) | 106.4 | 4.2% | 23.0 | 1.1% | 3.1pp |



SKIP TO P. 8

02 NINE MONTHS OTHER CONSOLIDATED FINANCIAL INFORMATION

| IN EUR M | JAN 1– SEP 30, 2016 | JAN 1– SEP 30, 2015 | CHANGE |
|--|------------------------|------------------------|--------|
| EBIT margin (as % of revenue) | 4.2% | 1.1% | 3.1pp |
| Adjusted EBIT (excl. equity-settled share-based payments) | 120.7 | 35.7 | 85.0 |
| Adjusted EBIT margin (as % of revenue) | 4.7% | 1.7% | 3.0pp |
| EBITDA | 136.8 | 47.2 | 89.6 |
| Adjusted EBITDA (excl. equity-settled share-based payments) | 151.1 | 59.9 | 91.2 |

03 THIRD QUARTER CONSOLIDATED INCOME STATEMENT

| IN EUR M | JUL 1– SEP 30, 2016 | AS % OF REVENUE | JUL 1– SEP 30, 2015 | AS % OF REVENUE | CHANGE |
|--|------------------------|--------------------|------------------------|--------------------|--------------|
| Revenue | 834.8 | 100.0% | 713.1 | 100.0% | 0.0pp |
| Cost of sales | –490.6 | –58.8% | –424.7 | –59.6% | 0.8pp |
| Gross profit | 344.3 | 41.2% | 288.4 | 40.4% | 0.8pp |
| Selling and distribution costs | –283.1 | –33.9% | –282.9 | –39.7% | 5.8pp |
| Administrative expenses | –48.7 | –5.8% | –34.2 | –4.8% | –1.0pp |
| Other operating income | 1.3 | 0.2% | 1.5 | 0.2% | –0.1pp |
| Other operating expenses | –1.1 | –0.1% | –0.7 | –0.1% | 0.0pp |
| Earnings before interest and taxes (EBIT) | 12.7 | 1.5% | –27.8 | –3.9% | 5.4pp |

04 THIRD QUARTER OTHER CONSOLIDATED FINANCIAL INFORMATION

| IN EUR M | JUL 1– SEP 30, 2016 | JUL 1– SEP 30, 2015 | CHANGE |
|---|------------------------|------------------------|--------|
| EBIT margin (as % of revenue) | 1.5% | –3.9% | 5.4pp |
| Adjusted EBIT (excl. equity-settled share-based payments) | 19.5 | –23.5 | 43.0 |
| Adjusted EBIT margin (as % of revenue) | 2.3% | –3.3% | 5.6pp |
| EBITDA | 23.8 | –19.1 | 43.0 |
| Adjusted EBITDA (excl. equity-settled share-based payments) | 30.6 | –14.8 | 45.4 |

05 KEY PERFORMANCE INDICATORS

| PERFORMANCE INDICATORS* | JUL 1– SEP 30, 2016 | JUL 1– SEP 30, 2015 | CHANGE | JAN 1– SEP 30, 2016 | JAN 1– SEP 30, 2015 | CHANGE |
|--|---------------------------|---------------------------|--------|---------------------------|---------------------------|--------|
| Site visits (in millions) | 468.6 | 393.9 | 19.0% | 1,428.4 | 1,198.6 | 19.2% |
| Mobile visit share (as % of site visits) | 67.0 | 58.8 | 8.1pp | 64.6 | 56.0 | 8.6pp |
| Active customers (in millions) | 19.2 | 17.2 | 11.5% | 19.2 | 17.2 | 11.5% |
| Number of orders (in millions) | 16.4 | 13.8 | 18.5% | 49.6 | 39.9 | 24.4% |
| Average orders per active customer | 3.4 | 3.0 | 13.2% | 3.4 | 3.0 | 13.2% |
| Average basket size (in EUR) | 62.8 | 63.3 | –0.8% | 65.1 | 66.3 | –1.7% |
| Revenue (in EUR m) | 834.8 | 713.1 | 17.1% | 2,547.4 | 2,089.7 | 21.9% |
| Adjusted fulfillment cost ratio (as % of revenue) | 24.0 | 27.1 | –3.1pp | 23.7 | 26.8 | –3.1pp |
| Adjusted marketing cost ratio (as % of revenue) | 9.5 | 12.3 | –2.8pp | 10.2 | 12.0 | –1.8pp |
| Fulfillment cost ratio (as % of revenue) | 24.2 | 27.3 | –3.1pp | 23.9 | 26.9 | –3.1pp |
| Marketing cost ratio (as % of revenue) | 9.7 | 12.4 | –2.7pp | 10.3 | 12.2 | –1.9pp |
| EBIT (in EUR m) | 12.7 | –27.8 | >100% | 106.4 | 23.0 | >100% |
| EBIT margin (as % of revenue) | 1.5 | –3.9 | 5.4pp | 4.2 | 1.1 | 3.1pp |
| Adjusted EBIT (in EUR m) | 19.5 | –23.5 | >100% | 120.7 | 35.7 | >100% |
| Adjusted EBIT (as % of revenue) | 2.3 | –3.3 | 5.6pp | 4.7 | 1.7 | 3.0pp |
| EBITDA (in EUR m) | 23.8 | –19.1 | >100% | 136.8 | 47.2 | >100% |
| Adjusted EBITDA (in EUR m) | 30.6 | –14.8 | >100% | 151.1 | 59.9 | >100% |
| Net working capital (in EUR m) | –157.9 | –2.6** | >100% | –157.9 | –2.6** | >100% |
| Operating cash flow (in EUR m) | 63.0 | 18.3 | >100% | 210.7 | 41.6 | >100% |

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

***) As of Dec 31, 2015



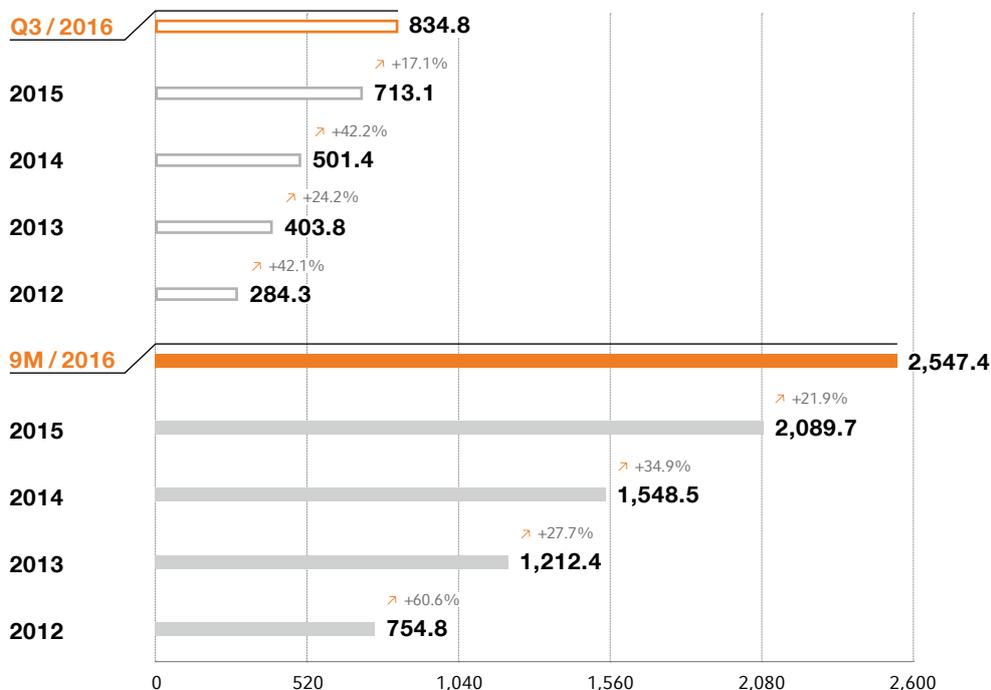
SKIP TO P. 10

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

DEVELOPMENT OF REVENUE

Zalando outperformed a weak fashion market in terms of revenue growth. In the third quarter of 2016, Zalando increased its revenue by EUR 121.7m from EUR 713.1m to EUR 834.8m compared to the prior-year period. This corresponds to year-on-year revenue growth of 17.1%.

01 THIRD QUARTER/NINE MONTHS REVENUE 2012–2016 (IN EUR M)



02 THIRD QUARTER/NINE MONTHS REVENUE BY SEGMENTS 2016 IN % (2015 IN %)



The increase in revenue can be primarily attributed to a **larger active customer base** as well as an **increase in average orders** per active customer. As of September 30, 2016, the group had 19.2 million active customers compared to 17.2 million active customers as of September 30, 2015. This corresponds to an increase of 11.5%. The larger customer base ordered more frequently compared to the prior-year period with the average number of orders per active customer rising by 13.2%. The average basket size remained fairly stable at EUR 62.8 (prior year: EUR 63.3).

Revenue growth was negatively affected by unfavorable warm weather conditions until mid of September which constrained the season switch to fall/winter merchandise, though led to a good sell-through rate of spring/summer items. Overall improved merchandise planning led to a lower discount rate as compared to the prior-year period.

In the first nine months of 2016, revenue shows a considerable 21.9% rise to EUR 2,547.4m (prior year: EUR 2,089.7m) compared to the corresponding prior-year period, driven by our **continued focus on improving the customer proposition across four dimensions**, namely the Zalando brand, the fashion assortment, the mobile proposition and convenience aspects. At the same time, the aforementioned key performance indicators improved year-on-year as well, with the number of active customers growing by 11.5% and average orders per active customer increasing by 13.2%.

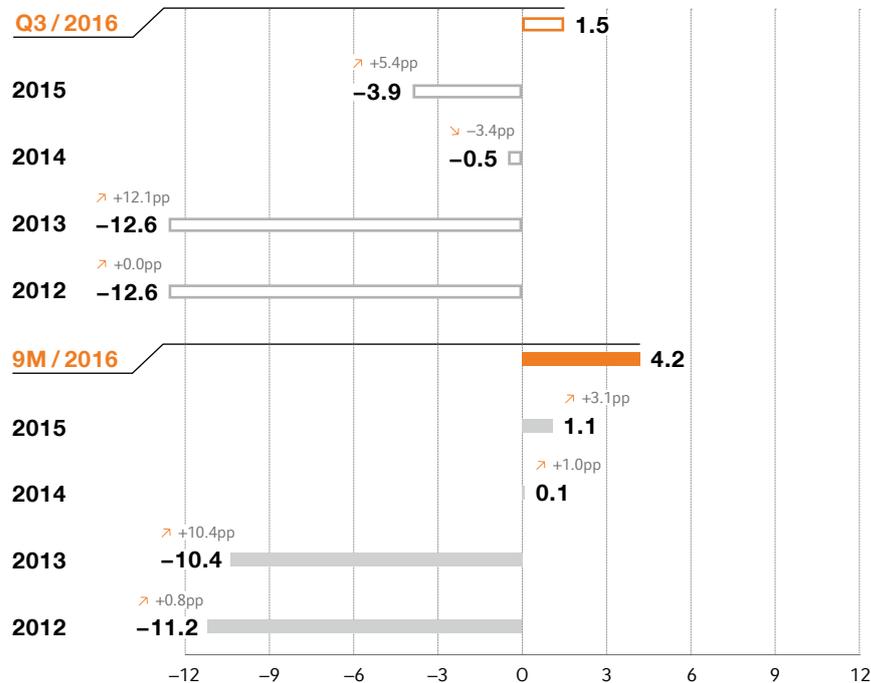
DEVELOPMENT OF EBIT

The group recorded an EBIT of EUR 12.7m in the third quarter of 2016 (prior year: EUR –27.8m), which corresponds to an EBIT margin of 1.5% (prior year: –3.9%) and represents an improvement of 5.4 percentage points. The strong EBIT margin is a result of a year-on-year improvement across all major operating cost lines, including an improvement in the gross margin of 0.8 percentage points, in the fulfillment cost ratio of 3.1 percentage points as well as the marketing cost ratio of 2.7 percentage points.



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03 THIRD QUARTER/NINE MONTHS EBIT MARGIN 2012–2016 (IN %)



Relative to revenue the cost of sales improved by 0.8 percentage points from 59.6% to 58.8% resulting in an increase of 0.8 percentage points in the gross margin from 40.4% to 41.2%.

The **increased gross margin** mainly results from a lower total discount rate compared to the prior-year period. Other factors supporting the improvement in the gross margin were greater flexibility in our merchandising functions and successful negotiations with brand partners.

Selling and distribution costs improved by 5.8 percentage points from 39.7% to 33.9%. Selling and distribution costs consist of fulfillment and marketing costs.

The fulfillment cost ratio as a percentage of revenue improved in the third quarter of 2016 by 3.1 percentage points from 27.3% to 24.2% in comparison to the prior-year period. The decrease in the fulfillment cost ratio is mainly a result of lower payment costs. Zalando has further optimized its steering of payment options and has changed its solvency score provider for better monitoring of fraudulent activities, resulting in lower allowances on trade receivables. Additionally, Zalando shows continued operating leverage across the other components of the fulfillment cost line, pushing forward its strategic investments in the customer proposition and the platform at the same time.

In the third quarter of 2016, the marketing cost ratio improved by 2.7 percentage points compared to the prior-year period. As, overall market conditions were unfavorable, we spent only where it was efficient to do so. In addition, we continued to drive forward marketing efficiency gains, in particular within performance marketing. Our investment also included brand marketing initiatives like our inaugural Bread&Butter event as well as the season start campaigns in September. The marketing cost ratio is also influenced by a release of accruals for unclaimed expenses.

Compared to the prior-year period, administration costs increased by 1.0 percentage points from 4.8% to 5.8% in the third quarter of 2016. The increase results mainly from the higher headcount to foster growth and strengthen the Zalando platform, and the associated office expenses.

In the first nine months of 2016 EBIT margin as a percentage of revenue improved by 3.1 percentage points from 1.1% in the first nine months of 2015 to 4.2%. Operating performance remained strong, leading to a decrease in the selling and distribution ratio. As a percentage of revenue, selling and distribution costs decreased from 39.1% in the first nine months of 2015 to 34.2% in the first nine months of 2016, mainly as a result of continued operating leverage and efficiency gains in both fulfillment and marketing.



SKIP TO P. 13

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 third quarter of 2016, Zalando generated an adjusted EBIT of EUR 19.5m (prior year: EUR -23.5m), which translates into an adjusted EBIT margin of 2.3% (prior year: -3.3%).

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 | JUL 1- SEP 30, 2016 | JUL 1- SEP 30, 2015 | CHANGE | JAN 1- SEP 30, 2016 | JAN 1- SEP 30, 2015 | CHANGE |
|---|---------------------------|---------------------------|------------|---------------------------|---------------------------|------------|
| Expenses for equity-settled share-based payments | 6.8 | 4.3 | 2.5 | 14.3 | 12.7 | 1.6 |
| Cost of sales | 1.7 | 1.1 | 0.6 | 3.6 | 3.2 | 0.4 |
| Selling and distribution costs | 3.4 | 2.2 | 1.2 | 7.2 | 6.4 | 0.8 |
| thereof marketing costs | 1.7 | 1.1 | 0.6 | 3.6 | 3.2 | 0.4 |
| thereof fulfillment costs | 1.7 | 1.1 | 0.6 | 3.6 | 3.2 | 0.4 |
| Administrative expenses | 1.7 | 1.1 | 0.6 | 3.6 | 3.2 | 0.4 |

As expenses from equity-settled share-based payments remained almost stable when compared to the prior-year period, the increase in adjusted EBIT and the adjusted EBIT margin stemmed almost exclusively from the aforementioned profit drivers.

01.2.3 RESULTS BY SEGMENT

The condensed segment results for the third quarter of 2016 show a **continued 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.



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07 CONSOLIDATED SEGMENT RESULTS

| IN EUR M | JUL 1– SEP 30, 2016 | JUL 1– SEP 30, 2015 | CHANGE | JAN 1– SEP 30, 2016 | JAN 1– SEP 30, 2015 | CHANGE |
|--|---------------------------|---------------------------|--------|---------------------------|---------------------------|--------|
| Revenue | | | | | | |
| DACH | 407.1 | 371.2 | 35.9 | 1,284.4 | 1129.4 | 155.0 |
| Rest of Europe | 374.0 | 300.8 | 73.2 | 1,091.8 | 851.1 | 240.7 |
| Other | 53.7 | 41.1 | 12.6 | 171.3 | 109.2 | 62.1 |
| Earnings before interest and taxes (EBIT) | | | | | | |
| DACH | 38.1 | -5.1 | 43.1 | 139.2 | 37.0 | 102.2 |
| Rest of Europe | -20.8 | -23.4 | 2.6 | -24.9 | -20.0 | -4.9 |
| Other | -4.5 | 0.6 | -5.2 | -8.0 | 6.0 | -14.0 |
| Other segment financial information | | | | | | |
| Adjusted EBIT DACH | 41.4 | -2.8 | 44.2 | 146.3 | 44.0 | 102.3 |
| Adjusted EBIT Rest of Europe | -17.9 | -21.7 | 3.8 | -19.0 | -15.1 | -3.9 |
| Adjusted EBIT Other | -4.0 | 1.0 | -5.0 | -6.6 | 6.8 | -13.5 |

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

08 SHARE-BASED COMPENSATION EXPENSES PER SEGMENT

| IN EUR M | JUL 1– SEP 30, 2016 | JUL 1– SEP 30, 2015 | CHANGE | JAN 1– SEP 30, 2016 | JAN 1– SEP 30, 2015 | CHANGE |
|--|---------------------------|---------------------------|------------|---------------------------|---------------------------|------------|
| Equity-settled share-based payments | 6.8 | 4.3 | 2.5 | 14.3 | 12.7 | 1.6 |
| DACH | 3.3 | 2.3 | 1.1 | 7.1 | 7.0 | 0.1 |
| Rest of Europe | 2.9 | 1.7 | 1.2 | 5.9 | 4.9 | 1.0 |
| Other | 0.6 | 0.4 | 0.2 | 1.3 | 0.8 | 0.5 |

SEGMENT DEVELOPMENT FOR THE QUARTER

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

In the third quarter of 2016, revenue grew by 9.7% in the DACH segment, by 24.3% in the Rest of Europe segment and by 30.8% in the Other segment, compared to the prior-year period. The DACH segment was more strongly affected by the unfavorable market conditions than the other segments.

With an increase in EBIT margin of the DACH segment by 10.7 percentage points to 9.3%, the DACH segment showed strong profitability in the third quarter of 2016. The increase primarily results from a higher gross margin mainly driven by a lower discount rate, as well as operating leverage in fulfillment costs, and an improvement in the marketing cost ratio. The EBIT margin in the Rest of Europe segment improved by 2.2 percentage points from –7.8% to –5.6% mainly due to improved fulfillment and marketing cost ratios, while the gross margin was negatively affected by higher discounts compared to the prior-year period. The EBIT margin in the Other segment recorded a decrease of 10.0 percentage points, resulting in an EBIT margin of –8.5% in the third quarter of 2016. The decrease is mainly a result of continued investments in platform initiatives.

SEGMENT DEVELOPMENT FOR THE FIRST NINE MONTHS

In the first nine months of 2016, group revenue increased by 21.9% from EUR 2,089.7m in the corresponding prior-year period to EUR 2,547.4m.

In the DACH segment, revenue rose by 13.7% in the first nine months of 2016 compared to the corresponding prior-year period. In the Rest of Europe segment, revenue grew 28.3%. Zalando's revenue growth in the Other segment was especially strong at 56.9%. Apparel continued to represent the largest product category in terms of revenue in the first nine months of 2016.

EBIT margin in the DACH segment improved from 3.3% in the first nine months of 2015 to 10.8% in the first nine months of 2016. This significant increase mainly results from lower allowances on trade receivables and continued operating leverage across all cost lines. EBIT margin for the Rest of Europe segment remained stable as operating efficiency gains were offset by growth investments. The EBIT margin in the Other segment decreased from 5.5% in the first nine months of 2015 to –4.7% in the first nine months of 2016 mainly due to further investments in platform initiatives.

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 10.2% in the third quarter of 2016, which translates into an increase of 10.9 percentage points when compared to the prior-year period. The Rest of Europe segment recorded a rise of 2.4 percentage points in the adjusted EBIT margin compared to -7.2% in the prior-year period. The Other segment generated an adjusted EBIT margin of -7.4% in the first nine months of 2016, representing a decline of 9.8 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 | JUL 1– SEP 30, 2016 | JUL 1– SEP 30, 2015 | JAN 1– SEP 30, 2016 | JAN 1– SEP 30, 2015 |
|--|------------------------|------------------------|------------------------|------------------------|
| Cash flow from operating activities | 63.0 | 18.3 | 210.7 | 41.6 |
| Cash flow from investing activities | -122.7 | -63.5 | -210.0 | -171.4 |
| Cash flow from financing activities | -0.2 | -0.6 | -1.4 | 3.2 |
| Change in cash and cash equivalents | -60.0 | -45.8 | -0.8 | -126.6 |
| Exchange-rate-related and other changes in cash and cash equivalents | 0.5 | -2.9 | 0.9 | 0.5 |
| Cash and cash equivalents at the beginning of the period | 1,035.9 | 973.5 | 976.2 | 1,051.0 |
| Cash and cash equivalents as of Sep 30 | 976.4 | 924.9 | 976.4 | 924.9 |

Zalando generated a **positive cash flow** from operating activities of EUR 63.0m in the third quarter of 2016 (prior-year period: EUR 18.3m).

In addition to the improvement in net income (which rose from EUR -28.5m in the prior-year period to EUR 5.0m in the reporting period), the increase in cash flow 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 the increase in trade payables, which reflects the higher business volume and the seasonal delivery peak, as well as an extended availability and utilization of reverse factoring lines. The higher business volume did not result in equivalently higher inventory due to a strong sell-through rate of prior season stock and measures to improve inventory turnover.



FURTHER INFORMATION
CONSOLIDATED STATEMENT
OF CASH FLOWS P. 26



SKIP TO P. 16

The negative cash flow from investing activities mainly results from cash invested in time deposits with an original term of more than three months and is therefore presented in the cash flow from investing activities. As of September 30, 2016 an amount of EUR 220.0m was invested in such time deposits (December 31, 2015: EUR 155.0m). Cash flow from investing activities further consists of investments in the logistics infrastructure of EUR 26.0m, relating primarily to the fulfillment centers in Mönchengladbach and Lahr as well as investments in internally developed software of EUR 13.2m.

Free cash flow increased by EUR 21.4m, from EUR –6.1m in the prior-year period to EUR 15.3m in the third quarter of 2016, mainly driven by the aforementioned improvement in net working capital.

On aggregate, cash and cash equivalents decreased by EUR 59.5m in the third quarter, resulting in Zalando carrying cash and cash equivalents of EUR 976.4m as of September 30, 2016.

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 | SEP 30, 2016 | | DEC 31, 2015 | | CHANGE | |
|---------------------|----------------|---------------|----------------|---------------|--------------|--------------|
| Non-current assets | 364.7 | 14.7% | 253.1 | 12.0% | 111.7 | 44.1% |
| Current assets | 2,113.2 | 85.3% | 1,863.5 | 88.0% | 249.7 | 13.4% |
| Total assets | 2,477.9 | 100.0% | 2,116.5 | 100.0% | 361.4 | 17.1% |

11 EQUITY AND LIABILITIES

| IN EUR M | SEP 30, 2016 | | DEC 31, 2015 | | CHANGE | |
|-------------------------------------|----------------|---------------|----------------|---------------|--------------|--------------|
| Equity | 1,342.9 | 54.2% | 1,271.4 | 60.1% | 71.6 | 5.6% |
| Non-current liabilities | 30.5 | 1.2% | 31.3 | 1.5% | -0.8 | -2.7% |
| Current liabilities | 1,104.5 | 44.6% | 813.8 | 38.5% | 290.7 | 35.7% |
| Total equity and liabilities | 2,477.9 | 100.0% | 2,116.5 | 100.0% | 361.4 | 17.1% |

In the first nine months of 2016, Zalando's total assets increased by 17.1%. The statement of financial position is dominated by working capital, cash and cash equivalents as well as equity.

In the first nine months of 2016, additions to intangible assets amounted to EUR 62.0m (prior-year period: EUR 15.4m) and additions to property, plant and equipment totaled EUR 89.0m (prior-year period: EUR 14.6m), mainly relating to the fulfillment centers in Mönchengladbach and Lahr.

Inventories almost exclusively comprise merchandise for Zalando's core business. The EUR 127.4m increase in inventories to EUR 620.9m predominantly relates to the delivery peak with respect to the fall/winter collection.



FURTHER INFORMATION
CONSOLIDATED STATEMENT
OF FINANCIAL POSITION P.22



SKIP TO P. 18

Trade and other receivables as reported on September 30, 2016 are all current. The slight increase from EUR 149.7m to EUR 167.4m is primarily attributable to the higher volume in business.

In the first nine months of 2016, equity rose from EUR 1,271.4m to EUR 1,342.9m. The EUR 71.6m increase primarily stems from the income for the period. The equity ratio declined from 60.1% at the beginning of the year to 54.2% as of September 30, 2016, resulting from the increase in total equity and liabilities.

Current liabilities increased by EUR 290.7m in the reporting period. This increase is mainly attributable to trade payables and similar liabilities, which rose by EUR 300.4m, increasing from EUR 645.8m to EUR 946.2m, mainly due to the delivery of goods. Under reverse factoring agreements, suppliers' claims against Zalando totaling EUR 248.8m as of September 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 nine months of 2016 as positive. The Zalando group continued its revenue growth and reports an improvement in its EBIT margin mainly due to further operating leverage across all cost lines. Zalando continued to find the adequate tradeoff between growth and margin, depending on market conditions, and pushed forward with growth investments into its customer proposition and platform initiatives. Overall, Zalando can look back on **successful first nine months** for 2016.

01.2.6 EMPLOYEES

The **headcount increased significantly** by 1,252 to 11,239 employees as of September 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, growth of the German economy will remain stable with domestic demand, notably private consumption, being 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 these factors, the British vote to leave the EU has created economic and political uncertainty, which could affect private consumption, investment growth, and foreign trade also in the near term, mainly in the UK, but also in other EU member states.⁵

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, will continue to contribute significantly to GDP growth in 2017, as it did in 2016, creating an encouraging outlook for retailers.⁶

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.⁷ 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 2016.⁸



WWW.BEVH.ORG

The **positive growth in European online trade** is expected to continue in the coming 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.⁹

The online fashion industry in Europe and Germany is also predicted to keep growing 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 2016.¹⁰

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.

5) European Commission
 6) Institut für Makroökonomie und Konjunkturforschung (IMK)
 7) Euromonitor International; Europe excl. Russia
 8) Bundesverband E-Commerce und Versandhandel Deutschland e.V. (bevh)
 9) Euromonitor International; Europe excl. Russia
 10) Euromonitor International; Europe excl. Russia

01.5.2 ADJUSTED GUIDANCE

Following a positive third quarter of 2016 with a significant improvement in profitability despite modest market development, management increased its full-year guidance for the adjusted EBIT margin of 5.0% to 6.0% for the current fiscal year (or an unadjusted EBIT margin of around 4.5% to 5.5%).

There are no changes to the revenue guidance for 2016 as described in the 2015 annual report. Zalando confirms its full-year revenue growth guidance towards the higher 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 nine months report of the fiscal year 2016, the economic position of the group remained positive.

Berlin, November 7, 2016

The Management Board

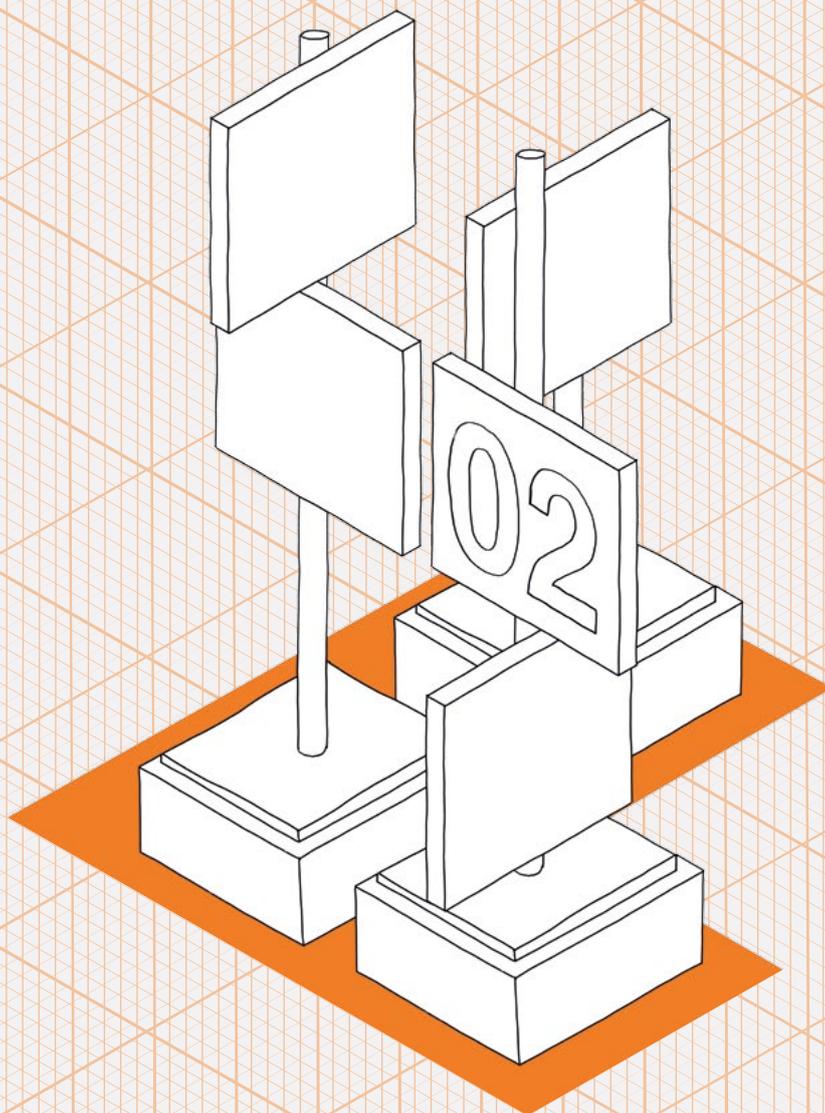
Robert Gentz

David Schneider

Rubin Ritter



END OF THE QUICK READER
INFORMATION



3/4 2016

INTERIM CONSOLIDATED FINANCIAL STATEMENTS

OTHER FACTS

24.5_M

APP DOWNLOADS

67.0%

OF SITE VISITS VIA MOBILE DEVICES IN Q3 2016

02.1 CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME



FURTHER INFORMATION
FINANCIAL PERFORMANCE
OF THE GROUP P.6

12 CONSOLIDATED INCOME STATEMENT

| IN EUR M | NOTES | JUL 1– SEP 30, 2016 | JUL 1– SEP 30, 2015 | JAN 1– SEP 30, 2016 | JAN 1– SEP 30, 2015 |
|---|-------|---------------------------|---------------------------|---------------------------|---------------------------|
| Revenue | (1.) | 834.8 | 713.1 | 2,547.4 | 2,089.7 |
| Cost of sales | (2.) | –490.6 | –424.7 | –1,436.4 | –1,156.7 |
| Gross profit | | 344.3 | 288.4 | 1,111.0 | 933.0 |
| Selling and distribution costs | | –283.1 | –282.9 | –870.2 | –817.0 |
| Administrative expenses | | –48.7 | –34.2 | –138.2 | –95.0 |
| Other operating income | | 1.3 | 1.5 | 6.3 | 6.7 |
| Other operating expenses | | –1.1 | –0.7 | –2.5 | –4.7 |
| Earnings before interest and taxes (EBIT) | | 12.7 | –27.8 | 106.4 | 23.0 |
| Interest and similar income | | 1.0 | 0.2 | 1.5 | 0.6 |
| Interest and similar expenses | | –3.3 | –1.7 | –7.3 | –4.0 |
| Result of investments accounted for using the equity method | | –1.1 | –0.7 | –2.5 | –1.1 |
| Other financial result | | 0.1 | –4.1 | 0.5 | 2.6 |
| Financial result | | –3.3 | –6.3 | –7.8 | –1.8 |
| Earnings before taxes (EBT) | | 9.4 | –34.1 | 98.5 | 21.2 |
| Income taxes | (3.) | –4.4 | 5.6 | –38.0 | –2.4 |
| Net income for the period | | 5.0 | –28.5 | 60.5 | 18.8 |
| Thereof net income attributable to the shareholders of ZALANDO SE | | 5.0 | –28.5 | 60.5 | 18.8 |
| Net income for the period as percentage of revenue | | 0.6% | –4.0% | 2.4% | 0.9% |
| Basic earnings per share (in EUR) | (4.) | 0.02 | –0.12 | 0.24 | 0.08 |
| Diluted earnings per share (in EUR) | (4.) | 0.02 | –0.12 | 0.24 | 0.07 |

13 CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

| IN EUR M | JUL 1– SEP 30, 2016 | JUL 1– SEP 30, 2015 | JAN 1– SEP 30, 2016 | JAN 1– SEP 30, 2015 |
|---|---------------------------|---------------------------|---------------------------|---------------------------|
| Net income for the period | 5.0 | –28.5 | 60.5 | 18.8 |
| Items recycled to profit or loss in subsequent periods | | | | |
| Effective portion of gains/losses from cash flow hedges, net of tax | –1.9 | 6.8 | –3.7 | 3.3 |
| Exchange differences on translation of foreign financial statements | –0.1 | –0.1 | –0.5 | –0.1 |
| Other comprehensive income | –2.0 | 6.7 | –4.3 | 3.2 |
| Total comprehensive income | 3.0 | –21.8 | 56.2 | 22.0 |
| Thereof total comprehensive income attributable to the shareholders of ZALANDO SE | 3.0 | –21.8 | 56.2 | 22.0 |

02.2 CONSOLIDATED STATEMENT OF FINANCIAL POSITION



FURTHER INFORMATION
FINANCIAL POSITION P. 16

14 CONSOLIDATED STATEMENT OF FINANCIAL POSITION – ASSETS

| IN EUR M | NOTES | SEP 30, 2016 | DEC 31, 2015 |
|---|-------|----------------|----------------|
| Non-current assets | | | |
| Intangible assets | | 95.1 | 48.8 |
| Property, plant and equipment | | 203.0 | 128.2 |
| Financial assets | | 24.9 | 17.6 |
| Deferred tax assets | | 23.8 | 47.5 |
| Non-financial assets | | 3.3 | 3.5 |
| Investments accounted for using the equity method | (5.) | 14.7 | 7.4 |
| | | 364.7 | 253.1 |
| Current assets | | | |
| Inventories | | 620.9 | 493.5 |
| Prepayments | | 0.7 | 1.4 |
| Trade and other receivables | | 167.4 | 149.7 |
| Other financial assets | | 242.6 | 175.9 |
| Other non-financial assets | | 105.1 | 66.7 |
| Cash and cash equivalents | (7.) | 976.4 | 976.2 |
| | | 2,113.2 | 1,863.5 |
| Total assets | | 2,477.9 | 2,116.5 |

15 CONSOLIDATED STATEMENT OF FINANCIAL POSITION – EQUITY AND LIABILITIES

| IN EUR M | NOTES | SEP 30, 2016 | DEC 31, 2015 |
|--|-------|----------------|----------------|
| Equity | | | |
| Issued capital | | 247.2 | 247.0 |
| Capital reserves | | 1,156.1 | 1,140.9 |
| Other reserves | | -2.9 | 1.4 |
| Accumulated loss | | -57.5 | -118.0 |
| | | 1,342.9 | 1,271.4 |
| Non-current liabilities | | | |
| Provisions | | 9.8 | 9.1 |
| Government grants | | 0.0 | 1.8 |
| Borrowings | | 12.0 | 14.4 |
| Other financial liabilities | | 3.1 | 2.1 |
| Other non-financial liabilities | | 3.3 | 3.1 |
| Deferred tax liabilities | | 2.2 | 0.8 |
| | | 30.5 | 31.3 |
| Current liabilities | | | |
| Provisions | | 1.0 | 0.0 |
| Borrowings | | 3.2 | 3.2 |
| Trade payables and similar liabilities | (6.) | 946.2 | 645.8 |
| Prepayments received | | 10.8 | 8.6 |
| Income tax liabilities | | 2.2 | 18.2 |
| Other financial liabilities | | 60.4 | 71.8 |
| Other non-financial liabilities | | 80.8 | 66.1 |
| | | 1,104.5 | 813.8 |
| Total equity and liabilities | | 2,477.9 | 2,116.5 |

02.3 CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

16 CONSOLIDATED STATEMENT OF CHANGES IN EQUITY 2016

| IN EUR M | NOTES | ISSUED CAPITAL | CAPITAL RESERVES |
|-----------------------------------|-------|----------------|------------------|
| As of Jan 1, 2016 | | 247.0 | 1,140.9 |
| Net income for the period | | 0.0 | 0.0 |
| Other comprehensive income | | 0.0 | 0.0 |
| Total comprehensive income | | 0.0 | 0.0 |
| Capital increase | | 0.2 | 0.9 |
| Share-based payments | | 0.0 | 14.3 |
| As of Sep 30, 2016 | | 247.2 | 1,156.1 |

17 CONSOLIDATED STATEMENT OF CHANGES IN EQUITY 2015

| IN EUR M | NOTES | ISSUED CAPITAL | CAPITAL RESERVES |
|--|-------|----------------|------------------|
| As of Jan 1, 2015 | | 244.8 | 1,120.4 |
| Net income for the period | | 0.0 | 0.0 |
| Other comprehensive income | | 0.0 | 0.0 |
| Total comprehensive income | | 0.0 | 0.0 |
| Capital increase | | 2.0 | 3.6 |
| Reversal of claims to share-based payments | | 0.0 | -2.3 |
| Share-based payments | | 0.0 | 12.7 |
| As of Sep 30, 2015 | | 246.8 | 1,134.4 |

02.3 CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

OTHER RESERVES

| | CASH FLOW HEDGES | CURRENCY TRANSLATION | ACCUMULATED LOSSES | TOTAL |
|--|------------------|----------------------|--------------------|---------|
| | 1.4 | 0.0 | -118.0 | 1,271.4 |
| | 0.0 | 0.0 | 60.5 | 60.5 |
| | -3.7 | -0.5 | 0.0 | -4.3 |
| | -3.7 | -0.5 | 60.5 | 56.2 |
| | 0.0 | 0.0 | 0.0 | 1.1 |
| | 0.0 | 0.0 | 0.0 | 14.3 |
| | -2.4 | -0.5 | -57.5 | 1,342.9 |

OTHER RESERVES

| | CASH FLOW HEDGES | CURRENCY TRANSLATION | ACCUMULATED LOSSES | TOTAL |
|--|------------------|----------------------|--------------------|---------|
| | 1.0 | 0.0 | -239.5 | 1,126.7 |
| | 0.0 | 0.0 | 18.8 | 18.8 |
| | 3.3 | -0.1 | 0.0 | 3.2 |
| | 3.3 | -0.1 | 18.8 | 22.0 |
| | 0.0 | 0.0 | 0.0 | 5.7 |
| | 0.0 | 0.0 | 0.0 | -2.3 |
| | 0.0 | 0.0 | 0.0 | 12.7 |
| | 4.3 | -0.1 | -220.6 | 1,164.8 |

02.4 CONSOLIDATED STATEMENT OF CASH FLOWS



FURTHER INFORMATION
CASH FLOWS P. 15

18 CONSOLIDATED STATEMENT OF CASH FLOWS

| IN EUR M | NOTES | JUL 1– SEP 30, 2016 | JUL 1– SEP 30, 2015 | JAN 1– SEP 30, 2016 | JAN 1– SEP 30, 2015 |
|------------|---|---------------------------|---------------------------|---------------------------|---------------------------|
| 1. | Net income for the period | 5.0 | –28.5 | 60.5 | 18.8 |
| 2. | + Non-cash expenses from share-based payments | 6.8 | 4.3 | 14.3 | 12.7 |
| 3. | – Cash paid for settlement of claims from share-based payments | 0.0 | 0.0 | 0.0 | –2.3 |
| 4. | + Depreciation of property, plant and equipment and amortization of intangible assets | 11.1 | 8.7 | 30.4 | 24.2 |
| 5. | + Income taxes | (3.) 4.4 | –5.6 | 38.0 | 2.4 |
| 6. | – Income taxes paid, less refunds | –4.6 | 0.0 | –29.2 | 0.0 |
| 7. | +/- Increase/decrease in provisions | 1.1 | 0.0 | 0.7 | –0.3 |
| 8. | -/+ Other non-cash income/expenses | 0.3 | 1.8 | –0.7 | –0.7 |
| 9. | +/- Decrease/increase in inventories | –175.6 | –157.9 | –127.4 | –242.0 |
| 10. | +/- Decrease/increase in trade and other receivables | –3.0 | 12.7 | –15.4 | –14.0 |
| 11. | +/- Increase/decrease in trade payables and similar liabilities | (6.) 264.7 | 188.2 | 285.0 | 266.3 |
| 12. | -/+ Increase/decrease in other assets/liabilities | –47.3 | –5.3 | –45.6 | –23.6 |
| 13. | = Cash flow from operating activities | (7.) 63.0 | 18.3 | 210.7 | 41.6 |
| 14. | – Cash paid for investments in property, plant and equipment | –32.3 | –12.0 | –73.8 | –19.5 |
| 15. | – Cash paid for investments in intangible assets | –15.4 | –7.8 | –42.1 | –19.6 |
| 16. | – Cash paid for acquisitions of shares in associated companies and acquisition of companies and prepayments for such acquisitions | 0.0 | –4.6 | –29.2 | –16.8 |
| 17. | +/- Cash paid for investments in term deposits | –75.0 | –45.0 | –65.0 | –155.0 |
| 18. | +/- Change in restricted cash | 0.0 | 6.0 | 0.0 | 39.5 |
| 19. | = Cash flow from investing activities | –122.7 | –63.5 | –210.0 | –171.4 |

02.4 CONSOLIDATED STATEMENT OF CASH FLOWS

18 CONSOLIDATED STATEMENT OF CASH FLOWS

| IN EUR M | NOTES | JUL 1– SEP 30, 2016 | JUL 1– SEP 30, 2015 | JAN 1– SEP 30, 2016 | JAN 1– SEP 30, 2015 |
|--------------|---|---------------------------|---------------------------|---------------------------|---------------------------|
| 20. + | Cash received from capital increases by the shareholders less transaction costs | 0.6 | 0.2 | 1.1 | 5.7 |
| 21. – | Cash repayments of loans | –0.8 | –0.8 | –2.4 | –2.4 |
| 22. = | Cash flow from financing activities | –0.2 | –0.6 | –1.4 | 3.2 |
| 23. = | Net change in cash and cash equivalents from cash-relevant transactions | –60.0 | –45.8 | –0.8 | –126.6 |
| 24. +/- | Change in cash and cash equivalents due to exchange rate movements | 0.5 | –2.9 | 0.9 | 0.5 |
| 25. + | Cash and cash equivalents at the beginning of the period | 1,035.9 | 973.5 | 976.2 | 1,051.0 |
| 26. = | Cash and cash equivalents as of Sep 30 | 976.4 | 924.9 | 976.4 | 924.9 |

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

19 CASH-RELEVANT INTERESTS

| IN EUR M | JUL 1– SEP 30, 2016 | JUL 1– SEP 30, 2015 | JAN 1– SEP 30, 2016 | JAN 1– SEP 30, 2015 |
|-------------------|---------------------------|---------------------------|---------------------------|---------------------------|
| Interest paid | –1.4 | –1.6 | –3.4 | –4.2 |
| Interest received | –0.2 | 0.2 | 0.2 | 0.5 |
| Total | –1.6 | –1.4 | –3.2 | –3.8 |

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 | JUL 1– SEP 30, 2016 | JUL 1– SEP 30, 2015 | JAN 1– SEP 30, 2016 | JAN 1– SEP 30, 2015 |
|---|---------------------------|---------------------------|---------------------------|---------------------------|
| Cash flow from operating activities | 63.0 | 18.3 | 210.7 | 41.6 |
| Cash paid for investments in property, plant and equipment | –32.3 | –12.0 | –73.8 | –19.5 |
| Cash paid for investments in intangible assets | –15.4 | –7.8 | –42.1 | –19.6 |
| Cash paid for acquisitions of shares in associated companies and acquisition of companies and prepayments for such acquisitions | 0.0 | –4.6 | –29.2 | –16.8 |
| Free cash flow | 15.3 | –6.1 | 65.6 | –14.4 |

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 September 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 MEASUREMENT 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 32 on account of entities founded and acquired in fiscal year 2016. The acquisitions completed in the first nine months of 2016 were not material.

02.5.2 SELECTED NOTES TO THE CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

(1.) REVENUE

21 REVENUE

| IN EUR M | JUL 1– SEP 30, 2016 | JUL 1– SEP 30, 2015 | JAN 1– SEP 30, 2016 | JAN 1– SEP 30, 2015 |
|--------------------------------------|---------------------------|---------------------------|---------------------------|---------------------------|
| Revenue from the sale of merchandise | 808.9 | 704.5 | 2,492.2 | 2,069.3 |
| Revenue from other services | 25.9 | 8.6 | 55.2 | 20.4 |
| Total | 834.8 | 713.1 | 2,547.4 | 2,089.7 |

Zalando outperformed a weak fashion market in terms of revenue growth. In the third quarter of 2016, Zalando increased its revenue by EUR 121.7m from EUR 713.1m to EUR 834.8m compared to the prior-year period. This corresponds to year-on-year revenue growth of 17.1%.

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 September 30, 2016, the group had **19.2 million active customers** compared to 17.2 million active customers as of September 30, 2015. This corresponds to an increase of 11.5%. The average number of orders per active customer increased by 13.2%. The average basket size remained fairly stable at EUR 62.8 (prior year: EUR 63.3).

Revenue growth was negatively affected by unfavorable warm weather conditions until mid of September which constrained the season switch to fall/winter merchandise, though led to a good sell-through rate of spring/summer items. Overall improved merchandise planning led to a lower discount rate as compared to the prior-year period.

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

| IN EUR M | JUL 1– SEP 30, 2016 | JUL 1– SEP 30, 2015 | JAN 1– SEP 30, 2016 | JAN 1– SEP 30, 2015 |
|---------------------|---------------------------|---------------------------|---------------------------|---------------------------|
| Non-personnel costs | 472.3 | 410.9 | 1,387.7 | 1,117.4 |
| Personnel costs | 18.3 | 13.8 | 48.7 | 39.3 |
| Total | 490.6 | 424.7 | 1,436.4 | 1,156.7 |

Cost of sales mainly consists of cost of materials, personnel costs, write-downs on inventories, third-party services and infrastructure costs. Cost of sales rose by EUR 65.9m from EUR 424.7m to EUR 490.6m. As a percentage of revenue the cost of sales decreased by 0.8 percentage points from 59.6% to 58.8%.

The cost of materials in the group totals EUR 431.3m (prior year: EUR 377.2m).

Zalando generated a gross profit of EUR 344.3m in the third quarter of 2016 (prior year: EUR 288.4m), or a gross margin of 41.2% (prior year: 40.4%).

The increased gross margin mainly results from a lower total discount rate compared to the prior-year period. Other factors supporting the improvement in the gross margin were greater flexibility in our merchandising functions and successful negotiations with brand partners.

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

| IN EUR M | JUL 1– SEP 30, 2016 | JUL 1– SEP 30, 2015 | JAN 1– SEP 30, 2016 | JAN 1– SEP 30, 2015 |
|--------------------------|---------------------------|---------------------------|---------------------------|---------------------------|
| Deferred taxes | -3.1 | 1.9 | -24.8 | 0.4 |
| Current taxes in Germany | -1.3 | 3.8 | -13.2 | -2.8 |
| Total | -4.4 | 5.6 | -38.0 | -2.4 |

(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)

| | JUL 1– SEP 30, 2016 | JUL 1– SEP 30, 2015 | JAN 1– SEP 30, 2016 | JAN 1– SEP 30, 2015 |
|---|---------------------------|---------------------------|---------------------------|---------------------------|
| Net income for the period (in EUR m) | 5.0 | –28.5 | 60.5 | 18.8 |
| Basic weighted average number of shares (in millions) | 249.9 | 247.0 | 247.1 | 246.0 |
| Total (in EUR) | 0.02 | –0.12 | 0.24 | 0.08 |

The basic earnings per share developed in line with the increase in net income for the period from EUR –28.5 in the third quarter of 2015 to EUR 5.0 in the third 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)

| | JUL 1– SEP 30, 2016 | JUL 1– SEP 30, 2015 | JAN 1– SEP 30, 2016 | JAN 1– SEP 30, 2015 |
|---|---------------------------|---------------------------|---------------------------|---------------------------|
| Net income for the period (in EUR m) | 5.0 | –28.5 | 60.5 | 18.8 |
| Diluted weighted average number of shares (in millions) | 259.3 | 247.0 | 255.5 | 253.0 |
| Total (in EUR) | 0.02 | –0.12 | 0.24 | 0.07 |

02.5.3 SELECTED NOTES TO THE CONSOLIDATED STATEMENT OF FINANCIAL POSITION

(5.) INVESTMENTS ACCOUNTED FOR USING THE EQUITY METHOD

In the first nine months of the year the carrying amount of investments accounted for using the equity method increased by EUR 7.3m net (increase in the prior-year period: EUR 7.9m) driven by an acquisition of additional shares in Anatwine Ltd., partly offset by operating losses.

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

Trade payables and similar liabilities rose by EUR 300.4m from EUR 645.8m to EUR 946.2m.

Under reverse factoring agreements, suppliers' claims against Zalando totaling EUR 248.8m were transferred to various factors as of September 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 63.0m in the third quarter of 2016 (prior-year period: EUR 18.3m).

In addition to the improvement in net income (which rose from EUR -28.5m in the prior-year period to EUR 5.0m in the reporting period), the increase in cash flow 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 the increase in trade payables, which reflects the higher business volume and the seasonal delivery peak, as well as an extended availability and utilization of reverse factoring lines. The higher business volume did not result in equivalently higher inventory due to a strong sell-through rate of prior season stock and measures to improve inventory turnover.

The negative cash flow from investing activities mainly results from cash invested in time deposits with an original term of more than three months and is therefore presented in the cash flow from investing activities. As of September 30, 2016 an amount of EUR 220.0m was invested in such time deposits (December 31, 2015: EUR 155.0m). Cash flow from investing activities further consists of investments into the logistics infrastructure of EUR 26.0m, relating primarily to the fulfillment centers in Mönchengladbach and Lahr as well as investments in internally developed software of EUR 13.2m.

Free cash flow increased by EUR 21.4m, from EUR –6.1m in the prior-year period to EUR 15.3m in the third quarter of 2016, mainly driven by the aforementioned improvement in net working capital.

On aggregate, cash and cash equivalents decreased by EUR 59.5m in the third quarter, resulting in Zalando carrying cash and cash equivalents of EUR 976.4m as of September 30, 2016.

In comparison to the first nine months of 2015, free cash flow increased by EUR 80.0m from EUR –14.4m to EUR 65.6m, mainly driven by the aforementioned improvement in 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 53.9m as of the reporting date (prior year: EUR 40.1m). Of this amount, EUR 53.9m (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 89.6m was ordered from related parties in the reporting period. The order volume totaled EUR 85.8m in the comparative period of the prior year. The cost of services received came to EUR 0.3m in the reporting period (comparable period: EUR 0.3m).

SEGMENT REPORTING

The Management Board measures the performance of the segments on the basis of 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.

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

26 SEGMENT REPORTING JUL 1–SEP 30, 2016

| IN EUR M | DACH | REST OF EUROPE | OTHER | JUL 1– SEP 30, 2016 |
|--|-------------|----------------|-------------|------------------------|
| Revenue | 407.1 | 374.0 | 53.7 | 834.8 |
| Earnings before interest and taxes (EBIT) | 38.1 | –20.8 | –4.5 | 12.7 |

27 SEGMENT REPORTING JUL 1–SEP 30, 2015

| IN EUR M | DACH | REST OF EUROPE | OTHER | JUL 1– SEP 30, 2015 |
|--|-------------|----------------|------------|------------------------|
| Revenue | 371.2 | 300.8 | 41.1 | 713.1 |
| Earnings before interest and taxes (EBIT) | –5.1 | –23.4 | 0.6 | –27.8 |

28 SEGMENT REPORTING JAN 1–SEP 30, 2016

| IN EUR M | DACH | REST OF EUROPE | OTHER | JAN 1– SEP 30, 2016 |
|--|--------------|----------------|-------------|------------------------|
| Revenue | 1,284.4 | 1,091.8 | 171.3 | 2,547.4 |
| Earnings before interest and taxes (EBIT) | 139.2 | –24.9 | –8.0 | 106.4 |

29 SEGMENT REPORTING JAN 1–SEP 30, 2015

| IN EUR M | DACH | REST OF EUROPE | OTHER | JAN 1– SEP 30, 2015 |
|--|-------------|----------------|------------|------------------------|
| Revenue | 1,129.4 | 851.1 | 109.2 | 2,089.7 |
| Earnings before interest and taxes (EBIT) | 37.0 | –20.0 | 6.0 | 23.0 |

SEGMENT DEVELOPMENT FOR THE QUARTER

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

In the third quarter of 2016, revenue grew by 9.7% in the DACH segment, by 24.3% in the Rest of Europe segment and by 30.8% in the Other segment, compared to the prior-year period. The DACH segment was more strongly affected by the unfavorable market conditions than the other segments.

With an increase in the EBIT margin of 10.7 percentage points to 9.3%, the DACH segment showed strong profitability in the third quarter of 2016. The increase primarily results from a higher gross margin mainly driven by a lower discount rate, as well as operating leverage in fulfillment costs, and an improvement in the marketing cost ratio. The EBIT margin in the Rest of Europe segment improved by 2.2 percentage points from -7.8% to -5.6% mainly due to improved fulfillment and marketing cost ratios, while gross margin was negatively affected by higher discounts compared to the prior-year period. The EBIT margin in the Other segment recorded a decrease of 10.0 percentage points, resulting in an EBIT margin of -8.5% in the third quarter of 2016. The decrease is mainly a result of continued investments in platform initiatives.

SEGMENT DEVELOPMENT FOR THE FIRST NINE MONTHS

In the first nine months of 2016, **group revenue increased** by 21.9% from EUR 2,089.7m in the corresponding prior-year period to EUR 2,547.4m.

In the DACH segment, revenue rose by 13.7% in the first nine months of 2016 compared to the corresponding prior-year period. In the Rest of Europe segment, revenue grew by 28.3%. Zalando's revenue growth in the Other segment was especially strong at 56.9%. Apparel continued to represent the largest product category in terms of revenue in the first nine months of 2016.

EBIT margin in the DACH segment improved from 3.3% in the first nine months of 2015 to 10.8% in the first nine months of 2016. This significant increase mainly results from lower allowances on trade receivables and continued operating leverage across all cost lines. EBIT margin for the Rest of Europe segment remained stable as operating efficiency gains were offset by growth investments. The EBIT margin in the Other segment decreased from 5.5% in the first nine months of 2015 to -4.7% in the first nine months of 2016 mainly due to further investments in platform initiatives.

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, November 7, 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 September 30, 2016, which are part of the interim financial report pursuant to Sec. 37w (7) in conjunction with (2) No. 1 and No. 2 and (3) and 4 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.

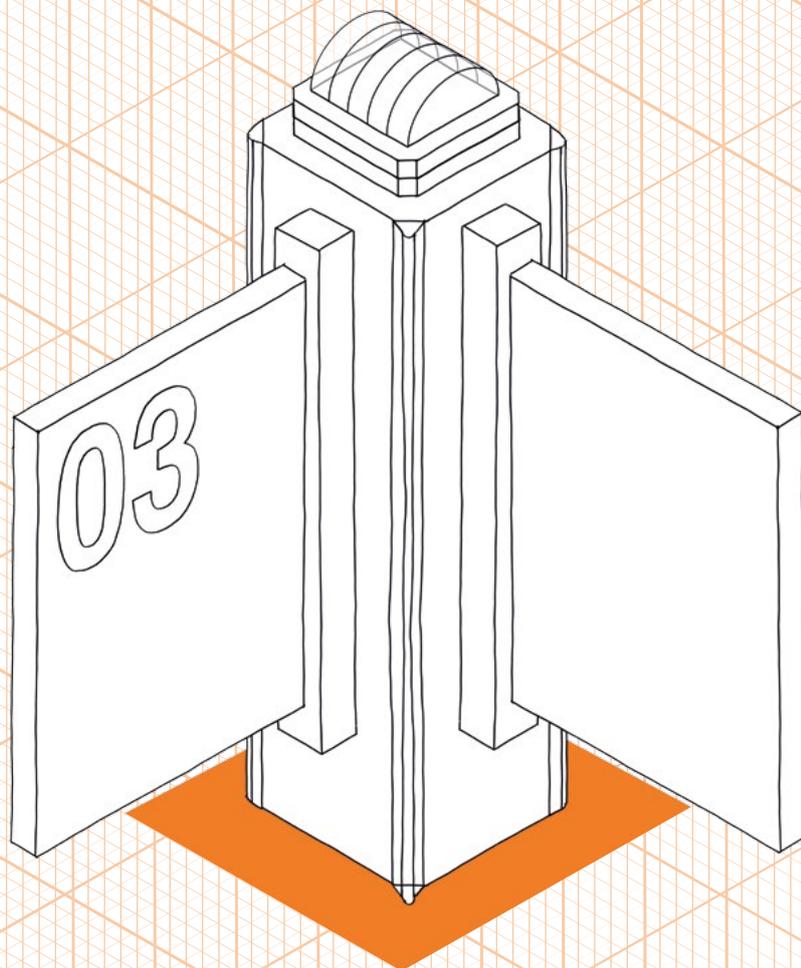
We conducted our review of the condensed interim consolidated financial statements and the interim group management report in accordance with German generally accepted standards for the review of financial statements promulgated by the Institut der Wirtschaftsprüfer [Institute of Public Auditors in Germany] (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 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 condensed interim 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, November 7, 2016

Ernst & Young GmbH
Wirtschaftsprüfungsgesellschaft

| | |
|-------------------------|-------------------------|
| Dr. Röders | Haas |
| Wirtschaftsprüfer | Wirtschaftsprüfer |
| [German Public Auditor] | [German Public Auditor] |



3/4 2016
SERVICE

FINANCIAL CALENDAR 2017

March 1, 2017

PUBLICATION OF THE ANNUAL REPORT 2016

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.

Content creation

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

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 2017

30 FINANCIAL CALENDAR 2017

| DATE | EVENT |
|---------------------|--|
| Wednesday, March 1 | Publication of the Annual Report 2016 |
| Tuesday, May 9 | Publication of the first quarter results 2017 |
| Thursday, August 10 | Publication of the second quarter results 2017 |
| Tuesday, November 7 | Publication of the third quarter results 2017 |

03.4 IMPRINT

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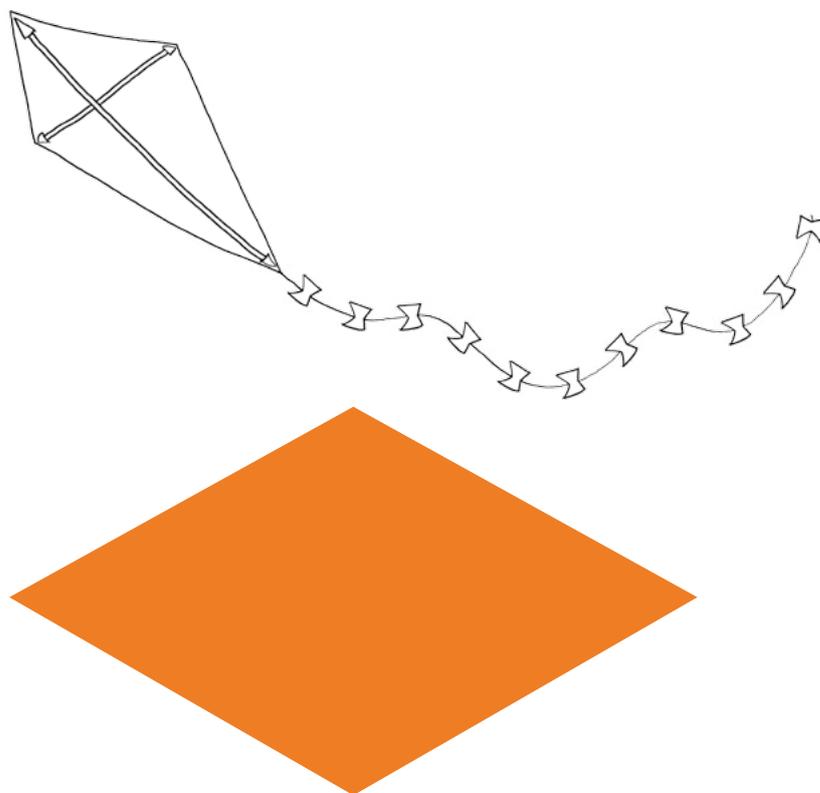
ILLUSTRATION

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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