

## 02.6 SUPPLEMENTARY MANAGEMENT REPORT TO THE SEPARATE FINANCIAL STATEMENTS OF ZALANDO SE

The management report of ZALANDO SE as a separate entity and the group management report have been combined. The following notes are based on the annual financial statements of ZALANDO SE, which were prepared in accordance with the provisions of the HGB and the AktG in conjunction with Article 61 EU CR 2157/2001.

### 02.6.1 BUSINESS ACTIVITY

ZALANDO SE is the parent company of the Zalando group. Its registered office is the corporate headquarters in Berlin. Its operating activities mainly include the development, sourcing, marketing, and retail sale of various types of goods, in particular clothing and shoes. Other responsibilities include management of the online shop, HR management, IT, finance management, and risk management.

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As the parent company of the group, ZALANDO SE is represented by its Management Board, which sets the direction of the group and defines the corporate strategy.

The financial statements of ZALANDO SE are prepared in accordance with the HGB. The consolidated financial statements are prepared in accordance with International Financial Reporting Standards (IFRS) as adopted in the EU. This gives rise to differences in recognition and measurement policies. The differences primarily relate to provisions, financial instruments, and deferred taxes.

In addition, ZALANDO SE has extensive supply and service relationships with its subsidiaries. The services purchased essentially encompass fulfillment and distribution services, content creation and customer service, as well as procurement services.

The services provided by ZALANDO SE comprise administrative and IT services.

## 02.6.2 ECONOMIC SITUATION OF ZALANDO SE

The results of operations of ZALANDO SE presented in the following income statement broken down by the type of expense reveal not only an increase in revenue, but also a significant improvement in the operating result in the reporting period.

## INCOME STATEMENT OF ZALANDO SE

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IN EUR M	JAN 1 – DEC 31, 2016	In % of sales	JAN 1 – DEC 31, 2015	In % of sales	Change in percentage points
Revenue	3,650.7	100.0%	2,950.8	100.0%	0.0pp
Own work capitalized	45.2	1.2%	22.4	0.8%	0.5pp
Other operating income	50.7	1.4%	80.8	2.7%	-1.3pp
Cost of materials	-2,043.3	-55.9%	-1,621.1	-54.9%	-1.0pp
<b>Gross profit</b>	<b>1,703.3</b>	<b>46.7%</b>	<b>1,432.9</b>	<b>48.5%</b>	<b>-1.8pp</b>
Personnel expenses	-227.4	-6.2%	-170.4	-5.8%	-0.5pp
Amortization and depreciation	-27.0	-0.7%	-22.1	-0.7%	0.0pp
Other operating expenses	-1,245.9	-34.2%	-1,148.8	-38.9%	4.7pp
<b>Earnings before interest and taxes</b>	<b>203.0</b>	<b>5.6%</b>	<b>91.6</b>	<b>3.1%</b>	<b>2.5pp</b>
<b>Financial result</b>	<b>-4.4</b>	<b>-0.1%</b>	<b>-0.6</b>	<b>0.0%</b>	<b>-0.1pp</b>
<b>Earnings before tax</b>	<b>198.6</b>	<b>5.4%</b>	<b>91.0</b>	<b>3.1%</b>	<b>2.4pp</b>
Income taxes	-65.7	-1.8%	36.2	1.2%	-3.0pp
<b>Net income for the year</b>	<b>132.9</b>	<b>3.6%</b>	<b>127.2</b>	<b>4.3%</b>	<b>-0.7pp</b>
EBIT margin	5.6%		3.1%		2.5pp

In the reporting period, Zalando increased its revenue by EUR 699.9m to EUR 3,650.7m. The 23.7% increase in revenue is the result of the higher number of orders (25.5%) and a larger customer base. Zalando continued its positive development in all markets. Furthermore, income mainly from intercompany charges of EUR 44.1m was reclassified from other income to revenue according to German Transformation of the EU Directive Act.

In the current fiscal year, the DACH countries generated more than half of total revenue. At the same time, revenue recorded in the other European countries increased significantly, contributing substantially to the overall growth.

## REVENUE OF ZALANDO SE BY SEGMENT

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IN EUR M	JAN 1 – DEC 31, 2016		JAN 1 – DEC 31, 2015		Change	
DACH*	1,952.0	53.5%	1,665.6	56.5%	286.4	17.2%
Rest of Europe**	1,698.7	46.5%	1,285.2	43.5%	413.5	32.2%
<b>Total</b>	<b>3,650.7</b>	<b>100.0%</b>	<b>2,950.8</b>	<b>100.0%</b>	<b>699.9</b>	<b>23.7%</b>

\*) As in fiscal 2015, DACH countries include Germany, Austria and Switzerland.

\*\*) As in fiscal 2015, the Rest of Europe comprises the Netherlands, France, Italy, the United Kingdom, Poland, Belgium, Sweden, Finland, Denmark, Spain, Norway, and Luxembourg.

The significant increase of EUR 22.8m in own work capitalized in the reporting year was due to the large number of development projects.

The cost of materials rose by EUR 422.2m to EUR 2,043.3m, in line with the expansion of business. The increase of 1.0 percentage points in the ratio of the cost of materials to revenue to 55.9% can be primarily attributed to higher discount rates in fiscal year 2016. Overall, ZALANDO SE generated a gross profit of EUR 1,703.3m in fiscal year 2016 (prior year: EUR 1,432.9m).

Personnel expenses rose by EUR 57.0m to EUR 227.4m, in line with the rise in the number of employees. As of December 31, 2016, the headcount increased by 692 on the prior year from 3,237 to 3,929 employees.

Other operating expenses primarily include marketing expenses as well as shipping and fulfillment costs. The cost ratio as a percentage of revenue improved by 4.7 percentage points from 38.9% in 2015 to 34.2% in 2016. The decrease in the fulfillment cost ratio is a result of lower payment costs, as last year's fulfillment costs had been negatively influenced by allowances for fraudulent receivables. Furthermore, marketing costs decreased mainly resulting from efficiency gains, in particular within performance marketing.

The EBIT for the year of EUR 203.0m (prior year: EUR 91.6m) can mainly be ascribed to the improvement of 4.7 percentage points in the other operating expenses.

The financial result comprises income from profit transfers of EUR 4.4m (prior year: EUR 2.3m) mainly from the profits generated by the outlets in Berlin, Frankfurt, and Cologne during the reporting period.

Income taxes include the deferred taxes and current income taxes paid or payable. They comprise trade tax, corporate income tax and solidarity surcharge. As in the prior year, the statutory corporate income tax rate, including solidarity surcharge, for the assessment period 2016 in Germany was 15.8%. The applicable trade tax rate was 14.8% as in the prior year.

Current and deferred taxes are presented in the following table.

## INCOME TAXES

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IN EUR M	JAN 1 – DEC 31, 2016	JAN 1 – DEC 31, 2015
Deferred taxes	–41.8	48.3
Current taxes in Germany	–23.9	–12.1
<b>Total</b>	<b>–65.7</b>	<b>36.2</b>

ZALANDO SE has previously made losses, which may be carried forward to reduce the tax burden for future years. As of the reporting date, ZALANDO SE maintains unused corporate income tax losses of EUR 78.6m (prior year: EUR 188.6m) and unused trade tax losses of EUR 60.4m (prior year: EUR 174.5m). The amount of these unused tax losses depends on the final assessment by the applicable tax office.

**NET ASSETS AND FINANCIAL POSITION**

The net assets of ZALANDO SE are shown in the following condensed statement of financial position.

**ASSETS**

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IN EUR M	DEC 31, 2016		DEC 31, 2015		Change
Non-current assets	461.8	17.9%	205.5	9.8%	256.3
Current assets	2,091.8	81.3%	1,840.0	87.7%	251.8
Prepaid expenses	15.4	0.6%	6.9	0.3%	8.5
Deferred tax assets	4.5	0.2%	46.3	2.2%	-41.8
<b>Total assets</b>	<b>2,573.5</b>	<b>100.0%</b>	<b>2,098.7</b>	<b>100.0%</b>	<b>474.8</b>

**EQUITY AND LIABILITIES**

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IN EUR M	DEC 31, 2016		DEC 31, 2015		Change
Equity	1,444.0	56.1%	1,290.8	61.5%	153.2
Special items for government grants	0.1	0.0%	1.3	0.1%	-1.2
Provisions	237.2	9.2%	203.5	9.7%	33.7
Liabilities	890.5	34.6%	602.2	28.7%	288.2
Deferred income	1.7	0.1%	0.9	0.0%	0.9
<b>Total equity and liabilities</b>	<b>2,573.5</b>	<b>100.0%</b>	<b>2,098.7</b>	<b>100.0%</b>	<b>474.8</b>

The total assets of ZALANDO SE rose by around 22.6% as a result of the further increase in business volume. The assets primarily consist of current assets, specifically inventories, and cash and cash equivalents.

In fiscal year 2016, capital expenditures focused on intangible assets (EUR 53.8m) and financial assets (EUR 220.0m). Investing activities were financed exclusively from own funds.

In fiscal year 2016, inventories mainly comprised merchandise used in the core operational business of ZALANDO SE.

As of December 31, 2016, ZALANDO SE's trade receivables were up EUR 99.2m to EUR 303.2m.

With regard to the liquidity and the financial development of ZALANDO SE we refer to the financial development of Zalando group. The financial development of Zalando group reflects basically the financial development of ZALANDO SE. Furthermore, ZALANDO SE is responsible for the cash management of the Zalando group.

In the past fiscal year, ZALANDO SE generated positive cash flow from operating activities of EUR 252.9m (prior year: EUR 80.8m). Further to an improvement in pre-tax income, cash flow from operating activities increased largely due to a higher cash inflow from working capital. This was partly offset by the increase in income tax payments and cash outflows for VAT receivables.

Cash flow from investing activities in fiscal year 2016 was mainly driven by capital increases in subsidiaries that were used to invest in the fulfillment infrastructure, as well as to further expand the respective business segments of the subsidiaries. In particular, investments were made in the fulfillment centers in Mönchengladbach, Lahr, and Szczecin and in intangible assets (mainly software and licenses) as well as in property, plant and equipment, primarily for furniture and fixtures.

The equity ratio stood at 56.1% (prior year: 61.5%).

Provisions and liabilities increased by EUR 321.9m to EUR 1,127.7m in line with the expansion of business. As of December 31, 2016, this figure mainly pertains to provisions for product return claims, outstanding invoices for fulfillment and marketing expenses and trade payables.

Reverse factoring agreements are in place with various suppliers and with several financial institutions. Under these agreements, the factor purchases the respective supplier receivables due from Zalando. Supplier claims against Zalando based on these agreements totaling EUR 282.3m had been transferred to the factor as of December 31, 2016 (prior year: EUR 170.9m); this amount is recognized in the balance sheet under trade payables.

### 02.6.3 RISKS AND OPPORTUNITIES

The business development of ZALANDO SE is subject to largely the same risks and opportunities as the group. ZALANDO SE fully participates in the risks of its subsidiaries. Statements made by the Management Board on the overall assessment of the group's risk situation thus also summarize the risk situation of ZALANDO SE. The description of ZALANDO SE's accounting-related internal control system and risk management system stipulated in section 289 (5) HGB is provided in the risk and opportunity report of the group.

### 02.6.4 OUTLOOK

The statements made on market trends and the development of revenue and the results for the group also apply here by virtue of the close ties between ZALANDO SE and the group and its weight within the group. The statements also reflect the expectations for the parent company.

Berlin, February 24, 2017

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