Zalando AG, Berlin

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

Exhibit 2

	EUR	EUR	2012 EUR k
1. Revenue	1,761,340,165.56		1.158.622
2. Other own work capitalized	9,902,785.52		3.408
3. Other operating income thereof income from currency translation: EUR 5,689,224.91 (prior year: EUR 1,006 k)	113,371,785.16		10.669
		1,884,614,736.24	1.172.699
4. Cost of materials Cost of raw materials, consumables and supplies and of purchased merchandise	-1,035,485,457.36		-621.752
5. Personnel expenses			
a) Wages and salaries	-92,643,389.61		-58.582
b) Social security, pension and other benefit costs thereof for old-age pensions: EUR 46,544.47 (prior year: EUR 163 k)	-15,054,101.85		-8.806
6. Amortization, depreciation and write-downs of intangible assets and property, plant and equipment	-11,349,889.91		-5.233
7. Other operating expenses thereof expenses from currency translation: EUR 6,629,362.98 (prior year: EUR 931 k)	-842,674,774.43		-555.098
		-1,997,207,622.16	-1.249.471
8. Other interest and similar income thereof from affiliates: EUR 56,382.33 (prior year: EUR 8 k)	595,636.98		1.446
9. Write-downs of financial assets	-9,999.00		-120
10. Interest and similar expenses	-2,487,158.81		-1.811
		-1,901,520.83	-485
11. Result from ordinary activities		-114,949,406.75	-77.257
12. Net loss for the year		-114,949,406.75	-77.257

Zalando AG, Berlin

Notes to the financial statements

as of 31 December 2013

A. General disclosures on content and classification of the financial statements

The Company is a large corporation pursuant to Sec. 267 (3) HGB ["Handelsgesetzbuch": German Commercial Code].

By entry in the commercial register dated 12 December 2013, the legal form of Zalando GmbH was changed to that of a stock corporation in accordance with the provisions of the UmwG ["Umwandlungsgesetz": German Law of Reorganizations]. The decision to change the legal form is dated 6 December 2013. Since then, the Company has been named Zalando AG.

These financial statements were prepared in accordance with the accounting provisions of Sec. 242 et seq. HGB and the supplementary provisions for corporations (Sec. 264 et seq. HGB). The provisions of the AktG ["Aktiengesetz": German Stock Corporation Act] on preparing annual financial statements were also observed.

The income statement has been prepared using the nature of expense method in accordance with Sec. 275 (2) HGB.

B. Accounting and valuation methods (Sec. 284 (2) No. 1 HGB)

The accounting and valuation methods applied comply with the provisions of the HGB (Secs. 238 to 263 HGB) as well as in accordance with the relevant provisions of the AktG ["Aktiengesetz": German Stock Corporation Act]. Furthermore, the Company observed the supplementary accounting and valuation methods that apply to large corporations.

The Company has made use of the option pursuant to Sec. 248 (2) HGB to capitalize **internally generated intangible assets** and amortizes these assets, if they have a limited life. Amortization is recorded using the straight-line method pro rata temporis. The cost of internally generated intangible assets includes direct costs as well as a proportionate share of overheads.

Intangible assets purchased from third parties are recognized at acquisition cost and are amortized if they have a limited life. Amortization is recorded using the straight-line method pro rata temporis.

Property, plant and equipment are recognized at acquisition cost and depreciated if they have a limited life. Depreciation is based on the estimated useful lives of the assets. Depreciation on property, plant and equipment is charged using the straight-line method pro rata temporis. Low-value assets (acquisition or production cost of between EUR 150.01 and EUR 1,000) are recorded in a collective item and depreciated over five years. Assets with an acquisition cost not exceeding EUR 150 are expensed upon acquisition.

With regard to **financial assets**, equity investments are recognized at the lower of cost or market. The attributable values were calculated based on the capitalized earnings value of the respective equity investment in accordance with IDW AcP HFA 10.

Merchandise is recognized at acquisition cost taking into account a weighted average in accordance with Sec. 240 (3) HGB or at the strict lower of cost or market principle (arm's length principle). Apart from normal retentions of title, no inventories have been pledged as security to third parties.

Receivables and other assets are stated at their nominal value. Impairments of trade receivables are recognized on the basis of portfolio-based valuation allowances, which are calculated with the assistance of country-specific valuation allowances based on overdue receivables and other factors influencing value.

Receivables that cannot be collected are written off in full.

Customer returns that had not yet been completely processed in 2013, but were under the control of the Company by the balance sheet date, are deducted from receivables.

Cash and cash equivalents are recognized at nominal value.

Prepaid expenses include payments made prior to the balance sheet date that relate to expenses for a particular period after this date.

The **special item for investment subsidies** reported claims for investment subsidies that have been approved but not yet been recorded with an effect on income. Income is realized on the same basis as the supported, subsidized expenses.

Other provisions account for all recognizable risks and uncertain liabilities that relate to the past fiscal year and were identified by the date on which the financial statements were finalized. They are recognized at the settlement value deemed necessary according to prudent business judgment.

Zalando granted options to management that entitle the beneficiaries to purchase shares in the Company after working for the Company for a certain period of time (equity-settled share-based payment awards). Significant plans for the financial reporting have been structured in a similar way. They are settled in the company shares. German GAAP does not explicitly state how to recognize these remuneration activities over the vesting period. Zalando recognizes share-based payment awards – where possible – in accordance with the international provisions of IFRS 2 and recognizes the personnel expenses incurred in the fiscal year at an equal amount in the capital reserves under equity.

Personnel expenses incurred in the fiscal year for phantom options (cash settled share-based payments) are accounted for by recognizing other provisions.

Provisions for employee stock options are valued based on best estimates of the amount and when they are expected to be utilized.

The cost of equity-settled share-based payment awards is calculated based on graded vesting; this means that the figure recorded for the cost of a plan reduces constantly over the vesting period.

Revenue recognition was adjusted to reflect an appropriate provision for returns expected. The provision is made using the effective gross method. According to the gross method, in addition to the profit share attributable to returns, the cost of materials for expected returns is also deducted from revenue. A provision is also recognized for expenses from future returns of goods dispatched in 2013.

Liabilities are recorded at the settlement value.

Liabilities from the sale of gift certificates are recognized in full under equity and liabilities and at 100% of the value of the anticipated utilization in the fiscal year 2013.

The Company controls the liquidity risk by means of ongoing planning and monitoring of liquidity. To optimize payment terms, reverse factoring agreements have been entered into with various suppliers and with a factor. Under these agreements, the factor purchases the respective supplier receivables due from Zalando. They are recognized under trade payables on the face of the balance sheet.

Receivables and liabilities in foreign currency are translated at the mean closing rate in accordance with Sec. 256a HGB.

Zalando AG purchases its merchandise globally and is therefore exposed to currency risks. Zalando AG uses forward exchange contracts to hedge against these risks.

The risks to be hedged relate to changes in the value of purchases made in USD and GBP. Zalando AG hedges a portion of pending transactions with micro hedges as part of the hedging concept set out by management. Following receipt of the invoice, changes in the value of the trade payables resulting from the orders are hedged. As of the balance sheet date, forward exchange contracts totaled EUR 17,649k (prior year: EUR 13,483k), some of which displayed a positive market value of EUR 69k (prior year: EUR 7k) and the others a negative market value of EUR 285k (prior year: EUR 289k).

Derivative financial instruments with matching amounts and maturities were used as hedges. Hedging instruments have a term of up to six months. The derivative financial instruments also comprise pending transactions. Forward exchange contracts and the corresponding cash flows from orders qualify as hedges as defined by Sec. 254 HGB.

The net hedge method is initially applied to pending transactions and the corresponding forward exchange contracts. Changes in the value of forward exchange contracts are therefore not recognized if they are offset by changes in the value of the underlying. Once a liability has been recognized, the fair value through net income method is applied to changes in the value of liabilities and forward exchange contracts. Changes in the value of hedged transactions and the opposing changes in the value of forward exchange contracts are then recognized through profit and loss.

Hedge effectiveness was reviewed using the dollar offset method in the reporting period. Changes in the fair value of the hedging instrument and the underlying were compared. The market value of the forward exchange contracts is based on the ECB reference rate taking into account the forward discounts and premiums customary for the market. If ineffectivities are found, the negative market value of the corresponding derivative financial instrument is recorded in the provision for potential losses through profit and loss. The positive market value of the corresponding instruments is not recognized.

Deferred taxes due to temporary or quasi-permanent differences between the carrying amounts of assets, liabilities, prepaid expenses and deferred income in the statutory accounts and their tax carrying amounts or due to tax loss carryforwards are valued using the company-specific tax rate of 30.175% expected at the time the differences reverse taking into account the location of the Company. Deferred tax assets and liabilities are offset. The offsetting includes deferred tax assets on tax loss carryforwards to the extent deferred tax liabilities were not offset against other deferred tax assets. Carrying amount differences between the statutory balance sheet and the tax balance sheet essentially relate to internally generated intangible assets.

C. Notes to the balance sheet

Fixed assets

The development of the individual fixed asset items, including depreciation for the fiscal year, is shown in the analysis of fixed assets (Attachment A to the notes to the financial statements).

Development costs for internally generated intangible assets of EUR 11,243k (prior year: EUR 3,872k) were recognized in the fiscal year.

Under financial assets, an impairment loss of EUR 10k was charged on Zalando S.r.l., Milan, Italy. In the prior year, an impairment loss of EUR 120k was recognized on My Brands GmbH i.L.

List of shareholdings classified as fixed financial assets

The Company held shareholdings in the following affiliates as of 31 December 2013:

Name	Registered office	Share	Net income/loss for 2013 (in EUR k)	Equity 31 Dec 2013 (in EUR k)
zLabels GmbH	Berlin	100%	1,539	-2,751
MyBrands GmbH i.L.	Berlin	100%	-	-
Zalando Operations GmbH (formerly: MyBrands Zalando Verwaltungs GmbH)	Berlin	100%	302	597
Zalando Logistics GmbH & Co. KG (formerly: MyBrands Zalando eLogistics GmbH & Co. KG)	Brieselang	100%	-3,747	45,702
Zalando Logistics Mönchengladbach GmbH & Co. KG (formerly: MyBrands Zalando eLogistics West GmbH & Co. KG)	Mönchengladbach	100%	-2,953	36,630
Zalando Customer Service DACH GmbH & Co. KG (formerly: MyBrands Zalando eServices GmbH & Co. KG)	Berlin	100%	-840	100
MyBrands Zalando eProductions GmbH & Co. KG (deconsolidation as of 9 June 2013)	Berlin	100%	-	-
Zalando Content Creation GmbH & Co. KG (formerly: MyBrands Zalando eStudios GmbH & Co. KG)	Erfurt	100%	-443	422
Zalando SAS	Paris (France)	100%	159	456
Zalando plc. (formerly: Zalando Ltd.)	London (UK)	100%	145	620
Zalando S.r.l. (in liquidation)	Milan (Italy)	100%	-104	-89
Kiomi GmbH	Berlin	100%	1	26
MyBrands Zalando eStyles GmbH&Co. KG	Berlin	100%	3	93
Portokali Property Development I GmbH&Co. KG (since 12 December 2013: AG & Co KG) *	Berlin	100%	-46	-45
Portokali Property Development II GmbH&Co. KG (since 12 December 2013: AG & Co KG) *	Berlin	100%	-31	-30
Portokali Property Development III GmbH&Co. KG (since 12 December 2013: AG & Co KG) *	Berlin	100%	-299	-298
Zalando Customer Service International GmbH & Co. KG	Berlin	100%	-122	678
zVentures Operations GmbH (from 10 Feb 2014: Zalando Lounge Service GmbH)	Berlin	100%	5	30
zOutlet Berlin GmbH	Berlin	100%	-17	279
zOutlet Frankfurt GmbH	Frankfurt a.M.	100%	-1	24

* Zalando AG is general partner of these companies

Inventories

Inventories include goods, primarily containing shoe and textile product groups, as well as payments on account for goods.

Receivables and other assets

As in the prior year, most of the receivables due from affiliates are trade receivables. There is a letter of subordination in place for receivables of EUR 5,566k (prior year: EUR 5,501k) due from zLabels GmbH, Berlin.

Receivables and other assets were valued taking into account the recognizable risks.

Other assets for the most part relate to creditors with debit balances and tax refund claims.

Other assets with a residual term of more than one year totaling EUR 9k (prior year: EUR 0k) were recognized as of the balance sheet date.

The other receivables and other assets are due within one year.

Other assets include an amount of EUR 1,609k (prior year: EUR 7,390k) to which the Company gained title only after closing. These concern input tax deductible in the following year.

Bank balances

Bank balances of EUR 36,139k (prior year: EUR 20,116k) are blocked in favor of third parties as of the balance sheet date and essentially serve as security for rental agreements.

Prepaid expenses

Prepaid expenses mainly contain prepayments for service and maintenance agreements, license fees and insurance premiums as well as a prepayment in the form of an advance on construction costs for an office building. This item also contains a debt discount of EUR 6k.

Equity

Subscribed capital

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

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

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

Capital reserves

In 2013, EUR 204,906k was transferred to the capital reserve. The capital reserve totals EUR 832,329k as of the balance sheet date. An amount of EUR 4,915k (prior year: EUR 6,454k) was recorded in capital reserves in the fiscal year 2013 on account of equity-settled share-based payment awards. The remaining allocations relate to payments received from the shareholders.

Provisions

Other provisions of EUR 75,099k were recognized (prior year: EUR 102,733k). They mainly relate to obligations to take back returned goods, outstanding invoices for logistics and marketing expenses as well as personnel-related expenses.

Liabilities

Liabilities to affiliates amount to EUR 44,102k (prior year: EUR 24,011k) as of the balance sheet date. As in the prior year, these mainly relate to trade payables.

These include long-term liabilities to affiliates with a residual term of more than one year totaling EUR 634k.

The remaining liabilities in this item are due in up to one year.

Deferred income

Deferred income relates to performance obligations that arose before the cut-off date of the financial statements and that accrued to the Company from marketing services. The item amounts to EUR 63k (prior year: EUR 0k) and corresponds to the portion of performance to be carried out after the balance sheet date.

Deferred taxes

Deferred tax liabilities come to EUR 3,658k as of the balance sheet date (prior year: EUR 1,386k). The deferred tax liabilities mainly stem from differences in recognition of internally generated intangible assets of EUR 11,962k. The deferred tax liabilities are offset by deferred tax assets of EUR 4,768k. These are mainly due to adjustments made to pension provisions in the tax balance sheet. The net deferred tax assets in the fiscal year are not recognized, exercising the option under Sec. 274 (1) Sentence 2 HGB. Therefore, no deferred taxes were recognized in the balance sheet.

Restrictions on distribution pursuant to Sec. 268 (8) HGB

The total amount as defined by Sec. 268 (8) HGB comes to EUR 11,962k (prior year: EUR 3,769k). This item only relates to the recognition of internally generated assets.

Contingent liabilities as defined by Sec. 251 HGB

Contingent liabilities as defined by Sec. 251 HGB as of the balance sheet date:

Zalando AG is jointly liable for the loan liabilities of Zalando Logistics GmbH & Co. KG, Brieselang, of EUR 24,130k (prior year: EUR 27,373k). As of the balance sheet date, EUR 20,216k (prior year: EUR 14,343k) of these loan liabilities had been drawn.

Furthermore, bank balances of EUR 10,074k (prior year: EUR 10,074k) are pledged as collateral for rental guarantees issued for rental agreements of Zalando Logistics GmbH & Co. KG and of EUR 450k (prior year: EUR 6,190k) as collateral for rental guarantees issued for rental agreements of Zalando Logistics Mönchengladbach

GmbH & Co. KG. In addition, Zalando AG is liable for rental guarantees issued in the amount of EUR 799k (prior year: EUR 395k) for additional rental agreements of Zalando Logistics GmbH & Co. KG and in the amount of EUR 198k (prior year: EUR 198k) for rental agreements of Zalando Operations GmbH.

Zalando AG has entered into obligations towards Goodmann Cinnamon Logistics (Lux) S.à.r.l, Goodmann Boysenberry Logistics (Lux) S.à.r.l and Goodmann Tumbleweed Logistics (Lux) S.à.r.l, to provide Zalando Logistics GmbH & Co. KG, Brieselang and Zalando Logistics Mönchengladbach GmbH & Co. KG, Mönchengladbach, with financial resources so that they are in a position at all times to settle their liabilities from rental agreements for logistics space in Erfurt and Mönchengladbach.

Zalando AG submitted a letter of comfort for EUR 300k to Anschutz Entertainment Group Real Estate GmbH & Co. KG, Berlin. The letter of comfort serves to safeguard various costs and claims for damages that may arise from the property purchase agreements concluded by the following subsidiaries of Zalando AG: Portokali Property Development I GmbH & Co. KG (since 12 December 2013: AG & Co KG), Portokali Property Development II GmbH & Co. KG (since 12 December 2013: AG & Co KG), Portokali Property Development III GmbH & Co. KG (since 12 December 2013: AG & Co KG).

Based on the economic situation and the forecasts available, Zalando AG deems the risk of claims being made from these contingent liabilities to be low.

Other financial obligations pursuant to Sec. 285 No. 3a HGB

The Company has other financial obligations of EUR 41,094k as of the balance sheet date (prior year: EUR 15,686k) (thereof to affiliates: EUR 0k).

These obligations relate to the following items:

	EUR k
Rental agreements	40,396
Leases	613
Purchase obligations for property, plant and equipment	85
Total	**41,094**

The rental and lease agreements expire between 31 March 2014 and 14 October 2018.

As of the balance sheet date, there are also other financial obligations for commitments to purchase merchandise for the spring/summer season 2014.

D. Notes to the income statement

Revenue

In fiscal 2013, around 62% of revenue related to the region Germany/Austria/Switzerland (see following table).

EUR k	2013		2012		Change
DACH*	1,095,041	62.2%	811,828	70.1%	283,213
Rest of Europe**	666,299	37.8%	346,794	29.9%	319,505
Zalando AG	**1,761,340**	**100%**	**1,158,622**	**100%**	**602,718**

** As in the fiscal year 2012, DACH countries include Germany, Austria and Switzerland*
*** As in the fiscal year 2012, Rest of Europe countries include the Netherlands, France, Italy, the UK, Poland, Belgium, Sweden, Finland, Denmark, Spain and Norway. Luxembourg was added as a new sales market in 2013.*

The Company has opted not to disclose a breakdown of revenue by division as there are no substantial differences considering the way the sales function is organized.

Reconciliation of net retained profit/accumulated loss

Pursuant to Sec. 158 (1) AktG, net retained profit/accumulated loss is derived by rolling forward the net loss for the year as follows:

Item	in EUR
Net loss for the year	-114,494,406.75
Loss brought forward from prior year	-155,954,341.95
Accumulated loss	**-270,448,748.70**

E. Other notes

Average number of employees during the year

An annual average of 2,086 (prior year: 1,496) persons were employed in the fiscal year.

Group relationships

As the German parent company, Zalando AG prepares consolidated financial statements. The consolidated financial statements of Zalando AG, Berlin, are prepared in accordance with International Financial Reporting Standards (IFRSs) as adopted by the EU (Sec. 315a HGB). The consolidated financial statements are published in the *elektronischer Bundesanzeiger* [Electronic German Federal Gazette].

Audit fees

The Company has opted not to disclose audit fees in accordance with Sec. 285 No. 17 last clause HGB. They are disclosed in the consolidated financial statements of Zalando AG.

Members of the supervisory board

Since the Company changed its legal form to a stock corporation in the year under review, the following people have been members of the Company's supervisory board:

Mia Brunell Livfors (Chair), Älvsjö (Sweden), Chief Executive Officer Investment AB Kinnevik (until 10 February 2014)

Cristina Mayville Stenbeck (Chair, since 13 February 2014), London (UK), executive member of the management board, Investment AB Kinnevik (since 10 February 2014)

Lorenzo Grabau (Deputy chair), London (England), investor and non-executive advisory board member of Investment AB Kinnevik

Alexander Samwer, Munich (Germany), entrepreneur

Anders Holch Povlsen, Viby (Denmark), Chief Executive Officer of the Bestseller Group

Lothar Lanz, Berlin (Germany), Chief Financial Officer, Axel Springer SE (since 10 February 2014)

Martin Weber, Munich (Germany), general manager and partner of HV Holtzbrinck Ventures Adviser GmbH

Mikael Larsson, Lidingö (Sweden), Chief Financial Officer, Investment AB Kinnevik (until 10 February 2014)

The members of the supervisory board receive a fixed payment for each full fiscal year of belonging to the board. The chair of the supervisory board receives 1.5 times this fixed payment.

In the fiscal year 2013, the pro rata supervisory board payments for the year totaled EUR 5k (prior year: EUR 0k).

Members of the management board

The following persons were appointed as members of the management board:

Robert Gentz, Berlin (Germany), management board member

Rubin Ritter, Berlin (Germany), management board member

David Schneider, Berlin (Germany), management board member

For the members of the management board, this is their full-time occupation.

The legal representatives have limited their reporting on management remuneration in the notes to the financial statements with reference to Sec. 286 (4) HGB.

Related parties disclosures

Related parties are legal or natural persons that can influence Zalando AG or that are subject to the control or significant influence of Zalando AG.

Related party transactions have concluded with Zalando AG's subsidiaries in particular. These mainly involve service and sales transactions. These transactions are concluded at arm's length conditions.

Appropriation of profits

The loss for the year was carried forward to new account.

Translation from the German language

Signing of the 2013 financial statements

Berlin, 3 March 2014

The management board

Robert Gentz	David Schneider	Rubin Ritter

Statement of changes in fixed assets for 2013

Translation from the German language

	Acquisition and production cost					Accumulated amortization, depreciation and write-downs				Net book values	
	1 Jan 2013 EUR	Additions EUR	Disposals EUR	Reclassifications EUR	31 Dec 2013 EUR	1 Jan 2013 EUR	Additions EUR	Disposals EUR	31 Dec 2013 EUR	31 Dec 2013 EUR	31 Dec 2012 EUR k
I. Intangible assets											
1. Internally generated industrial and similar rights and assets	5,472,515.48	11,242,921.32	0.00	823,025.04	17,538,461.84	1,703,915.48	3,872,646.36	0.00	5,576,561.84	11,961,900.00	3,769
2. Purchased franchises, industrial and similar rights and assets, and licenses in such rights and assets	7,669,198.48	6,872,429.70	0.00	0.00	14,541,628.18	2,455,401.65	4,159,534.37	0.00	6,614,936.02	7,926,692.16	5,214
3. Prepayments	837,437.84	1,370,223.17	0.00	-823,025.04	1,384,635.97	0.00	0.00	0.00	0.00	1,384,635.97	837
	13,979,151.80	19,485,574.19	0.00	0.00	33,464,725.99	4,159,317.13	8,032,180.73	0.00	12,191,497.86	21,273,228.13	9,820
II. Property, plant and equipment											
1. Land, land rights and buildings including buildings on third-party land	243,021.93	646,349.67	19,279.78	0.00	870,091.82	7,434.93	46,170.67	2,471.78	51,133.82	818,958.00	236
2. Other equipment, furniture and fixtures	9,495,576.19	6,657,914.33	175,233.23	123,471.95	16,101,729.24	2,769,537.19	3,271,538.51	67,698.46	5,973,377.24	10,128,352.00	6,726
3. Prepayments and assets under construction	141,276.98	368,730.95	0.00	-123,471.95	386,535.98	0.00	0.00	0.00	0.00	386,535.98	141
	9,879,875.10	7,672,994.95	194,513.01	0.00	17,358,357.04	2,776,972.12	3,317,709.18	70,170.24	6,024,511.06	11,333,845.98	7,103
III. Financial assets											
Shares in affiliates	35,105,104.40	64,737,014.29	2,351,500.00	0.00	97,490,618.69	119,999.00	9,999.00	0.00	129,998.00	97,360,620.69	34,985
	58,964,131.30	91,895,583.43	2,546,013.01	0.00	148,313,701.72	7,056,288.25	11,359,888.91	70,170.24	18,346,006.92	129,967,694.80	51,908

Management report for fiscal year 2013

Zalando AG, Berlin

Translation from the German language

Table of contents

A. Basic information on the Company

Business model

Zalando is a European online providers of shoes and fashion items. The wide range of items for women, men, and children extends from popular trendy brands to sought-after designer labels – all in all, Zalando works with over 1,500 brand name manufacturers. In addition to shoes and clothing, it also offers exclusive accessories as well as sporting goods as part of its extensive product range. Zalando's offering has been broadened and enhanced with the Zalando Lounge, which offers registered members special offers at highly discounted prices. The Company also offers a combination of extensive services that include free delivery and return, a free service hotline as well as a 100-day right of return for all products, making online shopping a secure and relaxing experience. The Company was founded in 2008 and has its registered offices in Berlin. After its great success in Germany, it has also been delivering to neighboring countries in Europe since 2009. This started with Austria in 2009 and was followed in the fiscal year 2010 by the Netherlands and France. Italy, the UK and Switzerland followed suit in the fiscal year 2011. Since 2012, Zalando has also been online in Sweden, Belgium, Spain, Denmark, Finland, Poland and Norway. In the current fiscal year, Luxembourg joined the list of countries to which the Company delivers.

The operating processes for the areas product entry, customer service and logistics are largely performed by Zalando AG's subsidiaries.

By resolution dated 6 December 2013 and entry in the commercial register on 12 December 2013, the legal form of Zalando GmbH was changed to that of a stock corporation in accordance with the provisions of the UmwG ["Umwandlungsgesetz": German Law of Reorganizations]. The conversion of the Company's legal form is a step that has been planned for a long time in order to move towards a corporate structure that befits the size of the Company and raises its international acceptance. The change will not have any effect on business operations.

The outlet store in Berlin in operation since 2012 was spun off to a separate GmbH or limited liability company (zOutlet Berlin GmbH) in November of this year. This means that the different organizational procedures due to the differing business models can be better aligned with the respective business activities.

Research and development

Zalando AG develops central components of the software used in the Company in house. This ensures that the software is aligned with the operating processes in the best possible way. For example, order and logistics processes in particular are supported using internally developed software. Development costs of EUR 11,243k were recognized in 2013.

B. Economic developments

1. Overall situation of the economy and industry-specific conditions

At the beginning of 2013, the global economy developed moderately for the second year in a row. After an already only slight rise in global gross domestic product of 3.1% in 2012, this figure slowed even further at the beginning of the reporting year, increasing by around 2.9% on average during the year. Considered over the course of the whole year, however, the global economy recovered towards the middle of the year, growing by 4.4% in the third quarter. This was the highest growth figure since 2010. Experts expect this trend to continue, with global production forecast to reach the significantly higher level of 3.7% in 2014 compared with prior years.[1]

The economic situation in Germany improved only slightly over the course of the year 2013. Adjusted for inflation, gross domestic product rose marginally by 0.4% compared to the prior year. The reason for this development lies in the weak economic development in the European countries, which was reflected above all else in foreign trade. By contrast, private consumption was the most important growth factor driving the German economy. Adjusted for inflation, consumer spending rose 0.9%.[2] The leading institutes expect gross domestic product to rise by 1.7% in the year 2014 as a

[1] See IFW ["Institut für Weltwirtschaft": German Institute for the World Economy], based in Kiel: Weltkonjunktur im Winter 2013, URL: http://www.ifw-kiel.de/wirtschaftspolitik/konjunkturprognosen/konjunkt/2013/Konjunkturprognosen_Welt_12-13.pdf (As of: 21 Feb 2014)

[2] See Federal Statistical Office, press release no. 016 from 15 January 2014,URL: https://www.destatis.de/DE/PresseService/Presse/Pressekonferenzen/2014/BIP2013/pm_bip2013_PDF.pdf?__blob=publicationFile (As of: 20 Feb 2014)

whole thanks to the recovery of the global economy and continued positive consumer sentiment.[3]

German retail business saw a revenue increase of a nominal 1.1% in the past fiscal year; internet business generated substantially higher revenue growth of a nominal 12% (prior year: 13%).[4] Clothing proved to have by far the highest unit sales of all merchandise groups in e-commerce again in 2013.[5]

2. Business development and employee development

Business development

Zalando AG consistently implemented its strategy and continued on its course for growth in the 2013 fiscal year. Zalando once again grew faster than the market in 2013 and captured market shares in all regional markets. Strong growth was again achieved in the core DACH market. However, a high level of growth was also recorded in the other markets. This is noteworthy because the market environment for the industry was challenging in 2013 as a result of external influences. Despite the continued trend towards online shopping, the fashion industry in continental Europe faced difficult market conditions in 2013. The late start to summer and a mild winter led to higher price reductions on the market with corresponding pressure on margins, which meant that the expectation at the start of the fiscal year could not be fully realized.

The expansion of Zalando's initial range of "shoes" to include "fashion items, sport items and accessories" was continued further. For the first time in the Company's history, Zalando sold more clothes than shoes in the fiscal year 2013. The customer base continued to grow rapidly. As of the end of the year, the e-commerce company

---

[3] See IFW ["Institut für Weltwirtschaft": German Institute for the World Economy], based in Kiel: Deutsche Konjunktur im Winter 2013, URL: http://www.ifw-kiel.de/wirtschaftspolitik/konjunkturprognosen/konjunkt/2013/Konjunkturprognosen_Deutschland_12-13.pdf (As of: 21 Feb 2014)

[4] See German Retail Federation (HDE), "Der deutsche Einzelhandel" presentation as of January 2014, available online: http://einzelhandel.de/images/presse/Graphiken/DerEinzelhandelJan2014.pdf

[5] See BVH ["Bundesverband des Deutschen Versandhandels": German E-Commerce and Distance Selling Trade Association], press release of 18 Feb 2014: "Ergebnisse der bvh-B2C-Studie 2013 liegen vor - Interaktiver Handel 2013: Massive Umsatzsteigerungen für die Branche – E-Commerce-Anteil knapp unter der 40 Milliarden Euro-Grenze", available online: http://www.bvh.info/presse/pressemitteilungen/details/datum/2014/februar/artikel/ergebnisse-der-bvh-b2c-studie-2013-liegen-vor-interaktiver-handel-2013-massive-umsatzsteigerungen/?cHash=9ede2a68b8eb6f23ccbe826deff4ae3c

had more than 13 million active customers who had made at least one purchase from Zalando in the last 12 months; in 2012, it had just over 9 million.

In addition to expanding the existing sales markets in 2013, Zalando invested more in developing sustainable corporate structures and raising quality standards in order to attain widescale customer satisfaction. After the Zalando Group’s logistics center in Erfurt started operations in 2012, a further logistics center was opened in Mönchengladbach in the fiscal year in order to further expand the existing logistics network in addition to the locations in Brandenburg. In addition, Zalando continued to invest in the development of software in the past fiscal year to be able to offer customers a full service in different areas such as payment processing and mobile shopping.

A decision was made at the end of the year to not continue the separate Emeza shop in its present form. Zalando is continuously enhancing its online shop, with the aim of giving its customers the best-possible online fashion experience. With a more than 400-strong technology team, Zalando can support virtually all processes in the online process in house, from payment transactions through to logistics. To further improve the leading position in a rapidly changing market environment, Zalando is actively focusing on its customers increasing preference towards mobile phone use. Optimized Zalando shops for mobile purchases are now available in all 15 markets. In addition, apps for Android and iOS devices were developed for the German market. As of the end of 2013, more than 35% of visits to the Zalando shop were on mobile devices, including tablets.

Looking back, it was in fact the right decision – in light of the challenging market environment – to focus on the existing markets and only enter one additional sales market (Luxembourg). For example, Zalando AG was able to largely achieve the targets set for revenue, margins and earnings in spite of the unfavorable external influences. The overall development of 2013 is considered satisfactory. Zalando AG therefore sees the prerequisites for sustainable revenue growth as well as continuously increasing profitability as extremely favorable.

Employee development

The headcount at Zalando AG rose sharply once again in 2013 on account of sustained high growth. The Company had an annual average headcount of 2,086 (prior year: 1,496).

Zalando's successful growth is based on the competencies and motivation of its staff. Due to the considerable growth of its core business, the penetration of new business areas and the rapid international expansion, Zalando constantly needs to strengthen its winning team. Recruitment therefore plays a central role in the HR department. In addition to having an extensive career portal, Zalando showcases itself as an attractive and multifaceted employer at career information fairs and job fairs in order to find a suitable applicant for each vacant position. To further staff qualifications, Zalando constantly offers opportunities for training and further education. Interviews to discuss personal performance and potential are conducted and form the basis of making the most of the individual development potential of every employee.

To recruit young talent, the Company has offered various traineeships from 2012 onwards in the areas of finance, graphics, purchasing, customer service and warehouse logistics. By providing traineeships, Zalando seeks to support young people and win qualified young employees for the future of the Company.

3. Economic situation

The significant expansion of Zalando AG's business activities is clearly reflected in the results of operations, financial position and net assets of the Company as of the 2013 reporting date. Therefore, due to the increases in all items, a comparison with the prior year is only possible to a limited extent.

Results of operations

The results of operations of the Company are presented in the following condensed income statement broken down by expense types within the Company.

in EUR k	2013	2012	Change
Revenue	1,761,340	1,158,622	602,718
Own work capitalized	9,903	3,408	6,495
Other operating income	113,372	10,669	102,703
Cost of materials	-1,035,485	-621,752	-413,733
Gross profit	**849,130**	**550,947**	**298,183**
Personnel expenses	-107,698	-67,388	-40,310
Amortization, depreciation and write-downs	-11,350	-5,233	-6,117
Other operating expenses	-842,675	-555,098	-287,577
Earnings before interest and taxes (EBIT)	**-112,593**	**-76,772**	**-35,821**
EBIT as a percentage of revenue	-6.4%	-6.6%	
Financial result	**-1,901**	**-485**	**-1,416**
Result from ordinary activities	**-114,494**	**-77,257**	**-37,237**
Net loss for the year	**-114,494**	**-77,257**	**-37,237**

Zalando AG's revenue climbed from EUR 1,159m in the prior year by 52.0% to EUR 1,761m in fiscal 2013. Zalando is thus continuing its positive development on all markets. The increase stems both from expanding its market position in the countries in the DACH region (Germany, Austria, Switzerland) and from establishing itself in the international markets, most of which were entered in the second half of 2012.

In the current fiscal year, the DACH countries continue to constitute the core business for Zalando AG. These countries generate more than half of all annual revenue. At the same time, revenue recorded in the Rest of Europe region has climbed significantly, contributing substantially to the positive overall growth.

in EUR k		**2013**		**2012**	**Change**
DACH*	1,095,041	62.2%	811,828	70.1%	283,213
Rest of Europe**	666,299	37.8%	346,794	29.9%	319,505
Zalando AG	**1,761,340**	**100%**	**1,158,622**	**100%**	**602,718**

** As in the fiscal year 2012, DACH countries include Germany, Austria and Switzerland*
*** As in the fiscal year 2012, Rest of Europe countries include the Netherlands, France, Italy, the UK, Poland, Belgium, Sweden, Finland, Denmark, Spain and Norway. Luxembourg was added as a new sales market in 2013.*

The EBIT margin improved by approximately a quarter percentage point in 2013 compared with the prior year. The margin development was influenced in particular by two effects: Firstly, Zalando also faced adverse weather conditions in 2013. These led to higher price reductions on the market, which put pressure on margins. Secondly, Zalando also decided to continue strategic initiatives in 2013 as the basis for further growth and an improved customer experience. This led to start-up expenses in the areas of logistics and technology, among other things. Overall logistics capacities were more than doubled in 2013. The first internally designed logistics center in Erfurt started operations, expansions will be completed in 2014. The logistics center is going to be the largest e-commerce property in Europe. Operations have also started in the new logistics center in Mönchengladbach.

Other operating income mainly relates to income from marketing services as well as cost allocations to subsidiaries initially charged to Zalando GmbH.

Cost of materials increased by EUR 414m to EUR 1,035m corresponding to the expansion of business activities. Cost of materials as a percentage of total operating performance rose by 5.1 percentage points to 58.8% in a year-on-year comparison, mainly on account of discounts in months of weak sales for weather-related reasons. In total, the Company recorded gross profit of EUR 849m in the fiscal year 2013 (prior year: EUR 551m).

Personnel expenses increased by EUR 40m to EUR 108m corresponding to the increase in the average headcount. Personnel expenses as a percentage of total operating performance of 6.1% (prior year: 5.8%) rose slightly on account of the penetration of new markets and the related start-up costs.

Other operating expenses mainly contain marketing expenses as well as freight and logistics costs. They rose in line with business development from EUR 555m to EUR 843m.

In light of the aforementioned factors, the EBIT margin improved slightly in 2013, from -6.6% to -6.4%. This corresponds to a net loss of EUR 114,494k. Against the backdrop of investments made in the logistics area in particular and the unfavorable demand as a result of adverse weather conditions in 2013, the margin development was satisfactory.

The net loss for the year is mainly attributable to expenses in connection with the long-term development of the Company in addition to higher price reductions. Zalando invests continuously in developing efficient processes in all core areas and in the Company's own infrastructure in order to strengthen the Company's long-term development in a sustainable manner.

Financial position

The liquidity situation and the financial development of Zalando AG are disclosed in the following condensed cash flow statement:

in EUR k	2013	2012
Cash flow from operating activities	**-74,693**	**-108,981**
Cash flow from investing activities	**-89,428**	**-40,250**
Cash flow from financing activities	**199,998**	**431,802**
Change in cash and cash equivalents	35,877	282,571
Cash and cash equivalents at the beginning of the period	388,750	106,179
Cash and cash equivalents as of 31 December	**424,627**	**388,750**

The negative cash flow from operating activities using the indirect method is essentially attributable to the net loss for the year adjusted for non-cash effects. The Company's growth is also reflected in a significantly higher volume of merchandise and trade receivables and payables.

Cash flow from investing activities in the fiscal year 2013 was essentially affected by capital increases in subsidiaries which were used for investing in the logistics infrastructure as well as for the further expansion of the respective divisions of the subsidiaries. Investments were made in particular in the new logistics center Mönchengladbach. Additionally, investments were made in intangible assets, mainly relating to IT software and licenses, and in property, plant and equipment, primarily for furniture and fixtures.

Cash flow from financing activities results solely from shareholder contributions to Zalando AG's equity, which serve to expand the Company in the long term and enhance its net asset value. The current fiscal year saw the Danish company Aktieselskbet af 5.8.2013 A/S, the Canadian fund Ontario Teacher's Pension Plan (OTPP) and companies from the Putnam investment group join the group of Zalando AG's shareholders as further investors. In total, cash and cash equivalents increased by EUR 36m to EUR 425m compared with the prior year. Cash and cash equivalents comprise cash on hand and cash at banks.

Translation from the German language

Net assets

The Company's net assets are summarized in the following condensed balance sheet:

Assets in EUR k	31 Dec 2013		31 Dec 2012		Change
Fixed assets	129,968	12.3%	51,908	6.4%	78,060
Current assets	921,602	87.3%	763,487	93.5%	158,115
Prepaid expenses	3,777	0.4%	1,005	0.1%	2,772
Total assets	**1,055,347**	**100%**	**816,400**	**100%**	**238,947**

Equity and liabilities in EUR k	31 Dec 2013		31 Dec 2012		Change
Equity	561,998	53.3%	471,579	57.8%	90,419
Special item for investment subsidies	1,969	0.2%	329	0.0%	1,640
Provisions	75,099	7.1%	102,733	12.6%	-27,634
Liabilities	416,282	39.4%	241,759	29.6%	174,523
Total equity and liabilities	**1,055,347**	**100%**	**816,400**	**100%**	**238,947**

Zalando AG's total assets rose by around 29% as a result of the further rise in business volume. The assets of the Company primarily relate to current assets including inventories and cash and cash equivalents in particular. Equity and liabilities relate exclusively to equity as well as short-term liabilities and provisions.

In the fiscal year 2013, the main investments were made in intangible assets (EUR 19,486k) and in financial assets (EUR 64,737k). Investing activities were financed exclusively from the Company's own funds.

Inventories mainly relate to goods for the core operating business of Zalando AG in the fiscal year 2013. The increase in goods by EUR 98m to EUR 328m stems from the increase in business volume and the resulting need for higher stock levels.

Zalando AG's trade receivables and other assets as of 31 December 2013 rose by EUR 25m to EUR 169m.

The increase in cash and cash equivalents is due to additional payments to the capital reserves by the shareholders.

Despite the net loss for the year, Zalando AG's equity increased by EUR 90m to EUR 562m, due to the aforementioned capital increases made by the shareholders. As a result of the disproportionate increase in liabilities, the equity ratio as of the balance sheet date amounts to roughly 53.3% (prior year: 57.8%).

Provisions and liabilities rose by EUR 147m to EUR 491m in line with the expansion in operating business. As of 31 December 2013, the provisions exist especially for obligations to take back returned goods, outstanding invoices, logistics and marketing expenses as well as trade payables. There are no significant liabilities denominated in foreign currency as of 31 December 2013.

There are reverse factoring agreements in place with various suppliers and with a factoring company. Under these agreements the factor purchases the respective supplier receivables due from Zalando. In connection with these agreements, supplier receivables due from Zalando totaling EUR 38m (prior year: EUR 42m) were transferred to the factor as of 31 December 2013; they are nevertheless still disclosed under trade payables in the balance sheet.

Overall assessment

The enormous growth of the Company has had a strong influence on Zalando AG's economic situation. The main items in the net assets, financial position and results of operations thus increased. Comparability with the prior year is therefore limited from an overall perspective on account of the growth in all items. Overall, the targets set for revenue, margins and earnings were largely achieved, meaning that the overall development in the fiscal year 2013 can be described as satisfactory.

4. Financial and non-financial performance indicators

With reference to the aforementioned comments on net assets, financial position and results of operations, the most important financial performance indicators for corporate management include cost of materials in relation to total operating performance, net working capital as an accounting ratio and cash flow from operating activities.

Zalando uses a range of both financial and non-financial performance indicators to manage the Company:

Number of orders: Alongside revenue, the number of orders is a key performance indicator for Zalando AG, because these are abstracted from the value of merchandise and they reflect quantities as a basis for growth. In the fiscal year 2013, the number of orders increased by around 12 million to around 35 million.

Number of active customers: Zalando AG also measures its success by the number of active customers. In the analysis, links to the other indicators, such as the number of orders, is relevant. In the past fiscal year, the number of active customers increased by approximately 43% to around 13 million.

Ratio of website visits from mobile devices vs. overall: In light of efforts to offer customers the opportunity to enjoy high quality shopping on their mobile devices, the number of website visits from smartphones and other mobile devices was given special attention. These more than doubled in 2013.

C. Opportunity and risk report

In its growth-driven company policy, Zalando AG seeks to control opportunities and risks with value-based management to make the best possible use of development opportunities that arise. The Company only enters into risks if they are counterbalanced by the opportunity of generating added value.

Risks

Risks for the Company can result from external developments as well as from internal processes. Due to turmoil in the financial markets and the euro crisis, economic development is still expected to be volatile. For example, there is a risk with countries with high debt levels in particular that fiscal or budgetary consolidation measures such as VAT increases and reductions in transfer payments could lead to a significant fall-off in demand for consumer goods. An unfavorable private consumer environment could lead to risks related to failing to meet revenue targets and the associated risk related to higher inventories at Zalando AG. However, management expects that the trend towards e-commerce would continue even in a difficult environment.

Moreover, the economic environment continues to be shaped by intense competition. A range of competitors have now significantly expanded their online shopping offering, so that extensive monitoring of business development is essential in order to react quickly to certain developments in the market environment. To monitor and control sales and inventories, Zalando AG employs a detailed system of key financial indicators which enables the Company to detect negative deviations at an early stage and implement appropriate measures. The purchase of goods on commission and integrating external retailers via the partner program further minimizes risks and optimizes warehouse capacity utilization. In addition, the Zalando Lounge and the bricks and mortar outlet store that opened in Berlin in 2012 (spun off to the wholly owned subsidiary Outlet Berlin GmbH as of 1 November 2013) serve as additional sales channels for remainders of stock.

There is a risk in connection with the international expansion that legal requirements in foreign countries will not be recognized in time. This risk is covered by legal advice from specialist lawyers in the respective foreign country.

Moreover, as an e-commerce company, Zalando is largely dependent on the functionality and stability of various internet sites. Disruptions or system failures would lead directly to a drop in revenue. To ensure the security and stability of the systems, Zalando is connected to host servers in geographically separate locations. Operation of the platform is constantly monitored to enable appropriate countermeasures to be initiated with a short response time in the event of a system failure. Extensive, multi-level security of the systems and personalized, role-based access also provide protection from unauthorized access and attacks.

The risk of instable IT systems or systems that are not compliant with each other applies equally to merchandise management and the logistics area. Interruptions to operations and an inconsistent roll-forward of inventories would also lead to a significant drop in revenue in the short term.

Due to the significance of risks, IT development and maintenance is subject to an ongoing quality control. There is an IT pipeline in place for urgent cases, where topics can be reprioritized at short notice.

Operating risks mainly relate to procurement and logistics, as is customary for the retail trade. The reliable and speedy delivery of flawless products is a decisive competitive factor for Zalando AG. Delivery delays and poor product quality would have a direct effect on the confidence of customers and would cause lasting damage to the Company’s image. Close collaboration with suppliers and continuous quality control of merchandise limits the risk of potential product quality problems. The product-specific sales risk is countered by an ongoing resale analysis. Zalando AG addresses the risk of unsatisfactory logistics in shipping and delivery to end customers by concluding long-term and clearly defined contract agreements with its service providers as well as by developing its own logistics activities in a sustainable manner.

Another risk for the Company relates to the payment behavior of customers and the risk of default for individual receivables. Zalando AG operates a comprehensive fraud management system in order to identify and prevent cases of fraud at an early stage.

Zalando AG’s strong growth requires an ongoing expansion of professionals depending on requirements. There is a risk that it is not possible or not immediately possible to recruit new staff because there are not enough skilled workers on the labor market. The same risk also arises if skilled workers leave the Company and replacements cannot be found promptly.

As a rule, there is a currency risk for procurement transactions carried out in foreign currency. This is counteracted by entering into hedges. Hedges are exclusively carried out in the form of forward exchange transactions.

Opportunities

Online business in Germany has for years recorded high growth rates and an increasing share in total retail sales.[6] By consistently focusing its business model on the e-commerce segment in conjunction with gearing its product range to market requirements and remaining constantly focused on the customer, Zalando will have the opportunity to further increase its revenue and market share. Through targeted marketing activities, the Company seeks to increase its brand awareness, win new customers and retain existing ones for the long term. Moreover, Zalando can continue to exploit the high market potential of e-commerce for European fashion through its presence now in 15 European countries and through the constant expansion of its product range of its own and other brands.

The partner program that was further extended in fiscal 2013 provides the Company the opportunity to expand the variety of products with reduced storage risks. The special offers in the Zalando Lounge provide the opportunity to reach new groups of customers through an additional sales channel, thus supporting Zalando's course for growth.

Zalando responded to the increased use of mobile devices by customers by launching its own app for smartphones in December 2012. The mobile version of the Zalando website already made it possible to access Zalando'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.

In order to keep up with the pace of growth, Zalando's technology department places great emphasis on short development times, weekly software releases as well as monitoring the platform 24 hours a day. Installing part of the software development at the new location in Dortmund will mean that in the future the high demand for qualified specialists can be satisfied in this region as well in order to be able to support the central team resolve complex issues.

For Zalando, a factor of central importance for sustainable growth in Germany and in the international markets is the further expansion of its logistics centers. A logistics center was opened in Mönchengladbach in 2013, after already launching Zalando's largest logistics location at present in Erfurt in the prior year. While two extension halls in Erfurt helped to grow warehousing and delivery capacities in 2013, they also helped the location in Mönchengladbach to further optimize the sales activities in the western European core markets.

[6] See BVH, press release of 12 February 2013, available online: http://www.bvh.info

D. Forecast

Future macroeconomic situation

The following comments on the future macroeconomic situation are based first and foremost on the estimates by the IFW in Kiel (Kiel discussion papers: Weltkonjunktur und deutsche Konjunktur im Winter 2013, December 2013).

The global economy developed sluggishly at the beginning of the 2013 reporting year. The ongoing debt and banking crisis in the euro zone as well as the debate surrounding fiscal policy are having a noticeable negative impact on the global economy. A gradual recovery was not seen until later in the year, and this is likely to continue in the new fiscal year. The IFW at Kiel University is forecasting growth of 2.9% in global gross domestic product. This means that although the global economy grew at a weaker rate in 2013 than in the prior year (2012: 3.1%), growth did accelerate in the second half of the reporting year. In contrast to the prior years, the driving force behind this development came from the developed economies, where the mood had brightened considerably. Overall, we expect stronger growth in global GDP in 2014 at a level of almost 3.7% compared with the prior-year figure of 2.9% in 2013 (2012: 3.1%).

The IFW in Kiel is forecasting a gradual economic recovery for the European Union. The ongoing consolidation of sovereign debt will continue to hamper economic development in the medium term. However, the risk of the crisis intensifying again has been reduced. In light of these facts, we are anticipating weak growth in macroeconomic output of 0.9% compared with a 0.4% drop in 2013.

The German economy regained pace in the course of the reporting year and developed at an above-average rate compared with the euro zone. Most of the leading indicators recorded also point towards further moderate growth, as a result of which we are anticipating growth in the region of 1.7% of GDP (2012: 0.4%).

The general retail trade in Germany is likely to grow by 1.1% nominally. Adjusted for inflation, however, this translates into another year of no growth, which is why the retail trade developed at a lower rate than private consumption.

While increased impetus cannot be reckoned with in western Europe on account of the sovereign debt crisis, marginal growth of 1% is expected for 2014. The framework conditions for the retail trade will remain challenging in the short term. The main factors burdening this area are the austerity programs and the record unemployment rates in many countries.

Future situation in the industry and future development of Zalando AG

The positive performance by internet sales is expected to continue in the future. The German Retail Federation (HDE) also predicts that internet sales will significantly exceed the average market growth rate of 17% in 2014.[7]

A similar forecast is also given by the European Multichannel and Online Trade Association (EMOTA), which also expects continued strong revenue growth of 15% for internet sales in Europe in 2014.[8]

Business expansion to a current total of 15 European countries has further secured Zalando's growth in the coming years. In addition to further revenue growth, the Company aims to constantly develop towards profitability. Zalando continues to invest in fashion, logistics and IT competencies in order to ensure the development of sustainable corporate structures and raise customer satisfaction.

In 2014, the focus is on expanding the new logistics location in Mönchengladbach that was opened in 2013, with special attention being paid to increasing capacity in the logistics area.

Expected results of operations and outlook

Zalando AG is in a strong financial position for future growth and the continuous expansion of existing structures. Its equity is still well above 50% as of 31 December 2013. The Company's results of operations and financial position are expected to continue to be marked by growth in revenue and thus by the resulting further investments in the Company's performance and net asset value over the coming years. After the significant jump in revenue of over 50% in 2013 compared with 2012, we expect further revenue growth that will exceed the market in the fiscal year 2014. The aim of taking another step towards profitability in 2014 is helped by the fact that investment-related expenses incurred in the last two years through the international expansion drive will no longer burden the result significantly in 2014.

---

[7] See German Retail Federation (HDE), "Der deutsche Einzelhandel" presentation as of January 2014, available online: http://einzelhandel.de/images/presse/Graphiken/DerEinzelhandelJan2014.pdf

[8] See European Multichannel and Online Trade Association (EMOTA)' "Update on E-commerce in Europe" presentation as of October 2013, available online: http://www.emota.eu/#!statistics/ccor

Overall statement by the management board of Zalando AG on medium-term development

Overall, the management board considers the economic situation of Zalando AG to be positive and sees opportunities for further rapid and sustainable growth in terms of revenue and an increase in the return on sales over the next year, despite potentially heterogeneous general economic developments. This has resulted in the concrete expectation that in 2014 revenue will continue to grow more strongly than the 17% expected in the overall market for internet sales compared to the prior year. As a result of the focus on existing markets, investment will be lower than in the prior year, which had seen high start-up related costs. This will lead to a considerably higher overall profitability of the Company in 2014. EBIT is expected to improve substantially in comparison to 2013, although it will still be negative. This will also have an impact on the dramatically improved cash flow before financing activities compared with 2013.

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 financial statements are 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.

E. Subsequent events

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

The management board

Berlin, 3 March 2014

Robert Gentz

David Schneider

Rubin Ritter