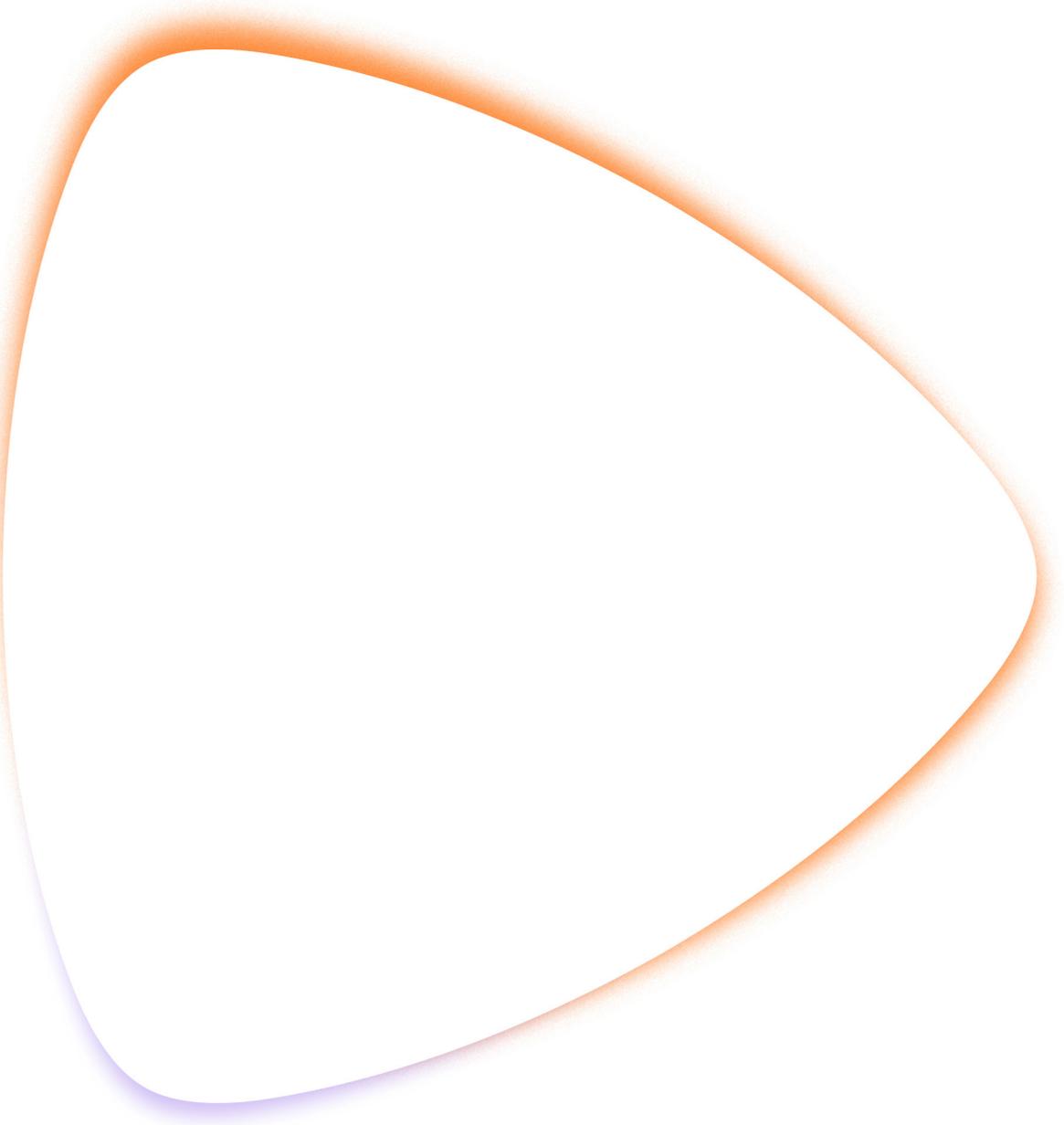


Half-Year Report H1 2021

zalando



Zalando at a Glance

Key Figures

	Apr 1 – Jun 30, 2021	Apr 1 – Jun 30, 2020	Jan 1 – Jun 30, 2021	Jan 1 – Jun 30, 2020
Group key performance indicators				
Site visits* (in millions)	1,688.9	1,296.2	3,396.9	2,433.7
Mobile visit share* (as a %)	87.9	85.9	87.6	85.3
Active customers (in millions)	44.5	34.1	44.5	34.1
Number of orders (in millions)	65.6	46.5	121.6	83.5
Average orders per active customer (LTM)	5.0	4.7	5.0	4.7
Average basket size (LTM, in EUR)	57.7	57.0	57.7	57.0
Results of operations				
Gross merchandise volume** (GMV) (in EUR m)	3,787.8	2,706.1	6,943.6	4,733.2
Revenue (in EUR m)	2,733.1	2,034.7	4,970.9	3,558.9
EBIT (in EUR m)	186.4	198.4	264.9	85.3
EBIT (as % of revenue)	6.8	9.8	5.3	2.4
Adjusted EBIT (in EUR m)	184.1	211.9	277.4	113.3
Adjusted EBIT (as % of revenue)	6.7	10.4	5.6	3.2
EBITDA (in EUR m)	243.6	250.7	375.5	188.2
EBITDA (as % of revenue)	8.9	12.3	7.6	5.3
Adjusted EBITDA (in EUR m)	241.3	264.1	387.9	216.1
Adjusted EBITDA (as % of revenue)	8.8	13.0	7.8	6.1
Financial position				
Net working capital (in EUR m)	12.8	-87.4***	12.8	-87.4***
Equity ratio (as % of total assets)	33.5	33.1***	33.5	33.1***
Cash flow from operating activities (in EUR m)	361.8	385.8	259.0	125.0
Cash flow from investing activities (in EUR m)	-51.8	-43.3	-91.6	-85.1
Free cash flow (in EUR m)	310.2	342.5	167.6	39.9
Capex (in EUR m)	-51.6	-43.3	-91.4	-91.1
Cash and cash equivalents (in EUR m)	2,298.7	1,377.5	2,298.7	1,377.5
Other				
Employees (as of the reporting date)	15,822	14,194***	15,822	14,194***
Basic earnings per share (in EUR)	0.46	0.49	0.60	0.15
Diluted earnings per share (in EUR)	0.45	0.47	0.60	0.14

pp = percentage points

For an explanation of the performance indicators, please refer to the glossary.

Rounding differences may arise in the percentages and numbers shown in this interim report.

* Due to a change in consent management following the GDPR introduction, some of the data is estimated using a statistical method.

** GMV (gross merchandise volume) is defined as the value of all merchandise sold to customers after cancellations and returns and including VAT, dynamically reported. It does not include B2B revenues (e.g. Partner Program commission, Zalando Marketing Services or Zalando Fulfillment Solutions) and other B2C revenues (e.g. service charges like express delivery fees); these are included in revenue only. GMV is recorded based on the time of the customer order.

*** As of Dec 31, 2020

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Interim Group Management Report

1.1 Background to the Group

The statements made in the annual report 2020 on the business model, the group structure, the strategy and objectives of the group, the management system, research and development as well as sustainability in the Zalando group still apply at the time this interim report was issued for publication.

1.2 Report on Economic Position

1.2.1 Macroeconomic and Sector-Specific Environment in HY1 2021

The first half year of 2021 was characterized by the ongoing COVID-19 pandemic, which brought strict lockdown measures at the beginning of the year and the gradual re-opening of European economies from March as the reported-case growth decelerated and vaccinations have become more widely available.

While the majority of European economies have rebounded from the COVID-19 crisis, most of them have not yet reached their pre-crisis levels. The pace of recovery among the different sectors of the economies is also noticeably different. While the manufacturing sector has recovered strongly and reached one of the highest readings on record, as indicated by the sector Purchasing Managers' Indices, the service sector, especially those services relying on direct contact between providers and customers, such as restaurants and brick-and-mortar shopping, are still at an early stage of recovery. In private consumption, the lifting of the containment measures and high household savings have resulted in sizable pent-up demand.¹ Due to these effects, private consumption throughout the euro area is estimated to have increased by 2.5% (2020: down 8.0%).² Germany, currently our most important sales market, has shown only a modest decline of around 0.3% (2020: down 6.3%).³

Looking at German fashion retail in more detail, brick-and-mortar fashion retail suffered considerable declines during the first half of the year. Overall, the strict measures on brick-and-mortar fashion retailing resulted in a 40% sales decline year-on-year in the first six months of 2021, except for June that experienced positive sales growth of 26% year-on-year. This exception stems, however, from low comparable values in the prior year (June 2020: down 22%).⁴ In contrast, German e-commerce fashion retail (apparel & shoes) showed a positive development in HY1 2021 with revenue growth of 21.6%, leading to absolute revenue of EUR 10,736m including VAT.⁵

1.2.2 Financial Performance of the Group

In the second quarter of 2021, sales and overall performance continued the outstanding growth seen in Q1 2021 despite much stronger comparables in Q2 2020: GMV and revenue grew by 40.0% and 34.3% respectively. The exceptional growth was driven by intensive new customer acquisition, the strong performance of our Partner Business and a successful End of

1) OECD Economic Outlook – May 2021

2) OECD Economic Outlook – May 2021

3) OECD Economic Outlook – May 2021

4) Textilwirtschaft Revenue statistics – July 2021

5) BEVH consumer study – July 2021

Season Sale. As a result of the extended lockdowns throughout Europe customers have continued to rely on digital services. Together with the outstanding top line growth, Zalando achieved solid profitability with EBIT and adjusted EBIT of EUR 186.4m (EUR 264.9m) and EUR 184.1m (EUR 277.4m) respectively for the second quarter of 2021 (first six months of 2021).

Condensed Consolidated Income Statement Q2 2021

IN EUR M	Apr 1 – Jun 30, 2021	As % of revenue	Apr 1 – Jun 30, 2020	As % of revenue	Change
Revenue	2,733.1	100.0%	2,034.7	100.0%	0.0pp
Cost of sales	-1,524.2	-55.8%	-1,131.4	-55.6%	-0.2pp
Gross profit	1,208.9	44.2%	903.3	44.4%	-0.2pp
Fulfillment costs	-662.1	-24.2%	-517.2	-25.4%	1.2pp
Marketing costs	-267.7	-9.8%	-105.3	-5.2%	-4.6pp
Administrative expenses	-107.8	-3.9%	-81.5	-4.0%	0.1pp
Other operating income	17.4	0.6%	1.5	0.1%	0.6pp
Other operating expenses	-2.4	-0.1%	-2.3	-0.1%	0.0pp
Earnings before interest and taxes (EBIT)	186.4	6.8%	198.4	9.8%	-2.9pp

Condensed Consolidated Income Statement HY 2021

IN EUR M	Jan 1 – Jun 30, 2021	As % of revenue	Jan 1 – Jun 30, 2020	As % of revenue	Change
Revenue	4,970.9	100.0%	3,558.9	100.0%	0.0pp
Cost of sales	-2,849.0	-57.3%	-2,117.6	-59.5%	2.2pp
Gross profit	2,122.0	42.7%	1,441.3	40.5%	2.2pp
Fulfillment costs	-1,232.9	-24.8%	-973.3	-27.3%	2.5pp
Marketing costs	-440.7	-8.9%	-228.8	-6.4%	-2.4pp
Administrative expenses	-199.9	-4.0%	-165.7	-4.7%	0.6pp
Other operating income	19.9	0.4%	15.6	0.4%	0.0pp
Other operating expenses	-3.4	-0.1%	-3.7	-0.1%	0.0pp
Earnings before interest and taxes (EBIT)	264.9	5.3%	85.3	2.4%	2.9pp

Key Performance Indicators

	Apr 1 – Jun 30, 2021	Apr 1 – Jun 30, 2020	Change	Jan 1 – Jun 30, 2021	Jan 1 – Jun 30, 2020	Change
Site visits* (in millions)	1,688.9	1,296.2	30.3%	3,396.9	2,433.7	39.6%
Mobile visit share* (as % of site visits)	87.9	85.9	2.0pp	87.6	85.3	2.3pp
Active customers (in millions)	44.5	34.1	30.6%	44.5	34.1	30.6%
Number of orders (in millions)	65.6	46.5	41.2%	121.6	83.5	45.6%
Average orders per active customer (LTM)	5.0	4.7	6.4%	5.0	4.7	6.4%
Average basket size (LTM, in EUR)	57.7	57.0	1.4%	57.7	57.0	1.4%
Gross merchandise volume (GMV) (in EUR m)	3,787.8	2,706.1	40.0%	6,943.6	4,733.2	46.7%
Revenue (in EUR m)	2,733.1	2,034.7	34.3%	4,970.9	3,558.9	39.7%
EBIT (in EUR m)	186.4	198.4	-6.1%	264.9	85.3	210.5%
EBIT (as % of revenue)	6.8	9.8	-2.9pp	5.3	2.4	2.9pp
Adjusted EBIT (in EUR m)	184.1	211.9	-13.1%	277.4	113.3	144.9%
Adjusted EBIT (as % of revenue)	6.7	10.4	-3.7pp	5.6	3.2	2.4pp
EBITDA (in EUR m)	243.6	250.7	-2.8%	375.5	188.2	99.5%
Adjusted EBITDA (in EUR m)	241.3	264.1	-8.6%	387.9	216.1	79.5%
Net working capital (in EUR m)	12.8	-87.4**	114.6%	12.8	-87.4**	114.6%
Operating cash flow (in EUR m)	361.8	385.8	-6.2%	259.0	125.0	107.2%
Capex (in EUR m)	-51.6	-43.3	-19.1%	-91.4	-91.1	-0.4%
Free cash flow (in EUR m)	310.2	342.5	-9.4%	167.6	39.9	319.7%

pp = percentage points

For an explanation of the performance indicators, please refer to the glossary.

Rounding differences may arise in the percentages and numbers shown in this interim report.

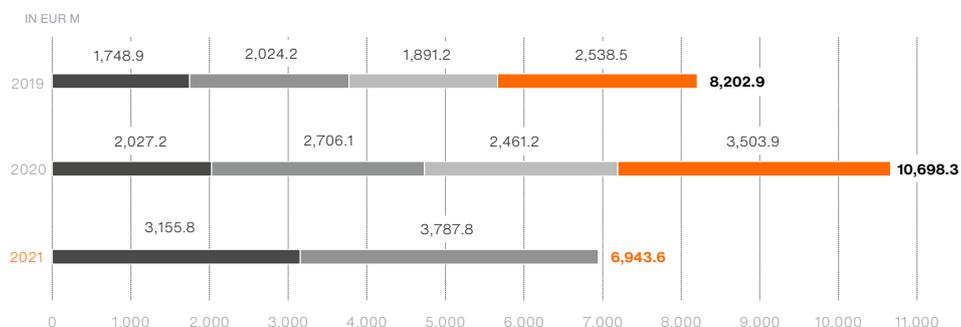
* Due to a change in the consent management following the GDPR introduction, some of the data is estimated using a statistical method.

** As of Dec 31, 2020

Development of GMV and Revenue in Q2 2021

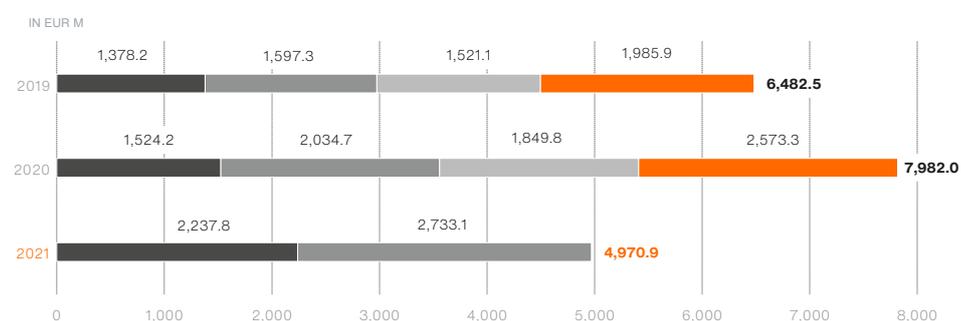
In Q2 2021, GMV increased by EUR 1,081.8m compared to the prior-year period to EUR 3,787.8m. This corresponds to year-on-year GMV growth of 40.0%. Performance was supported by the extended lockdowns throughout Europe directing consumer demand toward digital offerings. After a very strong spring/summer season start in Q1, Zalando saw its strong seasonal trading continue and achieved both a strong Mid Season Sale and a successful start into the End of Season Sale. As of June 30, 2021, the group had 44.5 million active customers compared to 34.1 million active customers as of June 30, 2020. This is an impressive increase of 30.6%. Along with that average orders per active customer reached a new all-time high of 5.0 (prior-year period: 4.7). The continued strong growth of our Partner Business led to an increased Partner Business share in GMV and also contributed to the increase in GMV and improvement of customer KPIs overall. Zalando saw its Partner Program grow strongly as brands and retailers increased their online activities and connected more stock to the Zalando platform in a bid to reach their customers across Europe.

GMV by Quarter (2019 – 2021)



Revenue increased by EUR 698.4m from EUR 2,034.7m to EUR 2,733.1m compared to the prior-year period. This corresponds to year-on-year revenue growth of 34.3%. The increase in GMV was higher than the increase in revenue. This is the result of the strong growth of the Partner Business, as this is fully reflected in the GMV metric while revenue only includes the commission income and service fees from partners.

Revenue by Quarter (2019 – 2021)



Development of EBIT in Q2 2021

The group recorded EBIT of EUR 186.4m in the second quarter of 2021 (prior-year period: EUR 198.4m). The EBIT margin declined by 2.9 percentage points from 9.8% in the prior-year period to 6.8% which is mainly driven by an increase in marketing costs.

In Q2 2021, cost of sales rose from EUR 1,131.4m to EUR 1,524.2m, with a stable gross margin. During the first quarter of 2020, Zalando had recognized an exceptional inventory write-down of EUR 40.2m which was partly reversed in Q2 2020 (EUR 11.3m).

The fulfillment costs in proportion to revenue decreased by 1.2 percentage points in the second quarter of 2021 compared to the prior-year period. The decrease in the fulfillment cost ratio is primarily attributable to lower logistic costs, driven by higher utilization rates across our European logistics network and a favorable return rate development.

The marketing cost ratio increased significantly by 4.6 percentage points to 9.8% compared to the prior-year period. This development mainly results from our decisive initial Corona

response efforts in spring 2020 when we deliberately reduced our marketing spend to account for the uncertainty surrounding the further evolution of the pandemic. Furthermore, we took the opportunity in Q2 2021 to further scale up long-term oriented investments in personalized marketing across all markets in order to attract new customers and drive favorable existing customer development. Looking at the two-year development, the marketing cost ratio rose by just 1.6 percentage points.

Compared to the prior-year period, administrative expenses increased by EUR 26.3m from EUR 81.5m to EUR 107.8m in Q2 2021 with a stable proportion to revenue.

Development of GMV and Revenue in the First Six Months

The development in the first six months of 2021 can be summarized as follows: GMV and revenue increased by 46.7% and 39.7% respectively, reflecting outstanding growth in new customers and a strongly performing Partner Business during the first six months of 2021.

Development of EBIT in the First Six Months

EBIT margin in proportion to revenue increased significantly by 2.9 percentage points from 2.4% in the first half of 2020 to 5.3% in the first half of 2021. The gross margin increased by 2.2 percentage points to 42.7%. The positive development of cost of sales can largely be explained by the exceptional inventory write-down of EUR 28.9m recognized in HY1 2020 as a result of revised sales expectations in response to the dramatic drop in demand due to the coronavirus crisis in Europe. Compared to the prior year, inventory write-downs were significantly lower in HY1 2021. Additionally, the gross profit margin benefited from a strong sell-through of fall/winter 2020 (FW20) and spring/summer 2021 (SS21), as well as the strong Partner Business performance in the first six months of this year. Fulfillment costs in proportion to revenue improved during HY1 2021 (down 2.5 percentage points). The fulfillment cost ratio largely benefited from higher utilization, driven by the strong business growth as well as lower average return volumes due to a favorable return rate development. The marketing cost ratio increased by 2.4 percentage points to 8.9% in the first half of 2021, resulting primarily from increased personalized marketing investments especially in Q2 2021 while in the prior-year period Zalando deliberately reduced investments in response to the coronavirus crisis.

Development of Adjusted EBIT in Q2 2021 and in the First Six Months

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, restructuring costs and non-operating one-time effects.

In the second quarter of 2021, Zalando generated an adjusted EBIT of EUR 184.1m (prior-year period: EUR 211.9m), which translates into an adjusted EBIT margin of 6.7% (prior-year period: 10.4%). The adjusted EBIT for the first six months amounted to EUR 277.4m (prior-year period: EUR 113.3m). The development of adjusted EBIT and the adjusted EBIT margin mainly stems from the aforementioned drivers of unadjusted EBIT.

In the first six months of 2021, other income of EUR 13.6m was recognized due to the commencement of a sublease for office space and has been eliminated from EBIT as a non-recurring item. In the prior-year period, EBIT included no restructuring costs or other one-time effects.

In addition to that, EBIT includes the following expenses from equity-settled share-based payments which are excluded from adjusted EBIT. More information can be found in the notes to the annual financial statements 2020 (section 3.5.7 (20.)).

Share-Based Compensation Expenses per Functional Area

IN EUR M	Apr 1 – Jun 30, 2021	Apr 1 – Jun 30, 2020	Change	Jan 1 – Jun 30, 2021	Jan 1 – Jun 30, 2020	Change
Expenses for equity-settled share-based payments	11.3	13.5	-2.2	26.0	27.9	-1.9
Cost of sales	0.7	0.9	-0.1	1.7	1.8	-0.1
Selling and distribution costs	2.4	2.6	-0.3	5.1	5.4	-0.3
thereof marketing costs	0.3	0.3	-0.1	0.7	1.0	-0.4
thereof fulfillment costs	2.1	2.3	-0.2	4.4	4.3	0.1
Administrative expenses	8.2	10.0	-1.8	19.2	20.8	-1.5

1.2.3 Results by Segment

The condensed segment results for the second quarter of 2021 highlight the strong performance as well as the continuous growth of the Fashion Store and Offprice segment.

Segment Development for the Second Quarter

Segment Results of the Group Q2 2021

IN EUR M	Fashion Store	Offprice	All other segments	Total	Reconciliation	Total group
Revenue	2,490.8	360.5	66.8	2,918.0	-184.9	2,733.1
thereof intersegment revenue	173.1	0.5	10.9	184.5	-184.5	0.0
Earnings before interest and taxes (EBIT)	159.1	26.0	-0.5	184.6	1.8	186.4
Adjusted EBIT	155.6	27.0	-0.3	182.3	1.8	184.1

Segment Results of the Group Q2 2020

IN EUR M	Fashion Store	Offprice	All other segments	Total	Reconciliation	Total group
Revenue	1,870.2	252.2	40.1	2,162.5	-127.8	2,034.7
thereof intersegment revenue	118.4	0.0	9.4	127.8	-127.8	0.0
Earnings before interest and taxes (EBIT)	186.9	14.4	-2.2	199.1	-0.7	198.4
Adjusted EBIT	198.1	15.8	-1.3	212.6	-0.7	211.9

Financial information for the Fashion Store segment, including intersegment transactions, breaks down into the regions Germany, Austria and Switzerland (DACH) and Rest of Europe as follows:

Fashion Store by Region Q2 2021

IN EUR M	DACH	Rest of Europe	Fashion Store
Revenue	1,159.3	1,331.4	2,490.8
thereof intersegment revenue	88.8	84.2	173.1
Earnings before interest and taxes (EBIT)	121.9	37.1	159.1
Adjusted EBIT	119.9	35.7	155.6

Fashion Store by Region Q2 2020

IN EUR M	DACH	Rest of Europe	Fashion Store
Revenue	863.4	1,006.8	1,870.2
thereof intersegment revenue	54.0	64.4	118.4
Earnings before interest and taxes (EBIT)	118.8	68.2	186.9
Adjusted EBIT	124.4	73.7	198.1

In Q2 2021, revenue in the Fashion Store segment grew by 33.2%. The significant increase in revenue is mainly attributable to a significant increase in the number of orders on the back of strong new customer acquisitions and the exceptional engagement of Zalando's existing customer base. This was the combined result of a strongly growing Partner Program offering customers an even more attractive assortment, together with the persistently growing trend toward online shopping. Profitability remained positive in the Fashion Store segment, with an EBIT margin of 6.4% in Q2 2021, equivalent to a decrease of 3.6 percentage points compared to the prior-year period. The decline of the EBIT margin mainly results from the increase in the marketing cost ratio. In the prior-year period, Zalando had deliberately reduced investments in response to the coronavirus crisis while in Q2 2021 it increased personalized marketing investments. This was partly offset by the improvement in the fulfillment cost ratio thanks to the high utilization of our logistics infrastructure and favorable developments in return rates. Furthermore, the reduction can be explained by the partial reversal of the inventory write-downs in Q2 2020. During the first quarter of 2020, Zalando had recognized an exceptional inventory write-down of EUR 40.2m which was then partly reversed in Q2 2020 (EUR 11.3m).

The Offprice segment was able to maintain its outstanding performance with revenue growth of 42.9% in Q2 2021. The business of Zalando Lounge continued its steady growth trajectory, with the tailwind created by lockdown measures, and consumers' continued attraction to deals and discounts. At the same time, the Outlet stores experienced a faster than expected ramp up after lockdown restrictions were lifted. The Offprice segment recorded EBIT of EUR 26.0m with the EBIT margin increasing from 5.7% in the prior-year period to 7.2% in Q2 2021. The increase was largely driven by savings in fulfillment costs, partly offset by a decreased gross profit margin driven by high discount levels and higher marketing spending.

The revenue in all other segments grew by 66.5% in Q2 2021, primarily driven by the strong performance of Zalando Marketing Services (ZMS) as partners increasingly invested more in branding campaigns year on year, as well as solid revenue growth seen for our integration businesses. Profitability improved with the EBIT margin increasing by 4.7 percentage points to -0.8%, benefiting largely from the strong top-line performance.

Segment Development for the First Six Months

Segment Results of the Group HY 2021

IN EUR M	Fashion Store	Offprice	All other segments	Total	Reconciliation	Total group
Revenue	4,500.0	678.3	125.5	5,303.8	-332.9	4,970.9
thereof intersegment revenue	307.7	0.7	24.5	332.9	-332.9	0.0
Earnings before interest and taxes (EBIT)	212.7	50.0	-1.0	261.8	3.2	264.9
Adjusted EBIT	221.1	52.9	0.2	274.2	3.2	277.4

Segment Results of the Group HY 2020

IN EUR M	Fashion Store	Offprice	All other segments	Total	Reconciliation	Total group
Revenue	3,261.8	437.0	77.5	3,776.3	-217.4	3,558.9
thereof intersegment revenue	199.7	0.0	17.7	217.4	-217.4	0.0
Earnings before interest and taxes (EBIT)	75.3	20.6	-9.8	86.1	-0.7	85.3
Adjusted EBIT	98.5	23.6	-8.1	114.0	-0.7	113.2

In the Fashion Store segment, revenue rose by 38.0% in the first six months of 2021 compared to the corresponding prior-year period. This development reflects the steady increase in customer demand fueled by the ongoing offline to online shift. The EBIT margin in the Fashion Store segment increased by 2.4 percentage points from 2.3% in the first six months of 2020 to 4.7% in the first six months of 2021. Key drivers were the improvement in the cost of sales ratio as there were no exceptional inventory write-downs comparable to those recognized in 2020 as well as a lower fulfillment cost ratio.

In the Offprice segment, revenue grew by 55.2% in the first six months of 2021 compared to the corresponding prior-year period. The Offprice segment recorded an EBIT margin of 7.4% – an increase of 2.7 percentage points compared to the prior-year period. The strong performance is largely attributable to the steady growth of Zalando Lounge during the first six months and supported by the reopening of the Outlet stores after lockdown restrictions were lifted.

In all other segments total revenue increased by 61.9% during the first half of the year compared to the prior-year period, the main reason being the strong performance of ZMS. The EBIT margin in all other segments increased by 11.9 percentage points to -0.8% in the first six months of 2021 in comparison to the first six months of 2020, benefiting largely from the strong top-line performance.

Adjusted EBIT

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

Share-Based Compensation Expenses per Segment

IN EUR M	Apr 1 – Jun 30, 2021	Apr 1 – Jun 30, 2020	Change	Jan 1 – Jun 30, 2021	Jan 1 – Jun 30, 2020	Change
Expenses for equity-settled share-based payment	11.3	13.5	-2.2	26.0	27.9	-1.9
Fashion Store	9.1	11.1	-2.1	21.0	23.2	-2.2
Offprice	1.4	1.5	0.0	3.4	3.0	0.4
All other segments	0.8	0.8	-0.1	1.7	1.8	-0.1

The development of adjusted EBIT mainly stems from the aforementioned drivers of unadjusted EBIT. A one-time effect for income generated from the commencement of a sublease of EUR 13.6m was excluded from adjusted EBIT. It is mainly allocated to the Fashion Store segment. In the prior-year period, the development in adjusted EBIT resulted exclusively from share-based compensation as there were no restructuring or other one-time effects.

1.2.4 Cash Flows

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

Condensed Statement of Cash Flows

IN EUR M	Apr 1 – Jun 30, 2021	Apr 1 – Jun 30, 2020	Jan 1 – Jun 30, 2021	Jan 1 – Jun 30, 2020
Cash flow from operating activities	361.8	385.8	259.0	125.0
Cash flow from investing activities	-51.8	-43.3	-91.6	-85.1
Cash flow from financing activities	-125.8	2.2	-503.9	361.8
Change in cash and cash equivalents	184.3	344.7	-336.5	401.8
Exchange-rate related and other changes in cash and cash equivalents	-9.5	-1.3	-8.8	-0.8
Cash and cash equivalents at the beginning of the period	2,123.9	1,034.0	2,644.0	976.5
Cash and cash equivalents as of Jun 30	2,298.7	1,377.5	2,298.7	1,377.5

In the first half of 2021, Zalando generated a positive cash flow from operating activities of EUR 259.0m (prior-year period: EUR 125.0m), an increase of EUR 134.0m compared to the prior-year period. The operating cash flow of the first six months of the year was largely driven by the strong positive net income, which was only partly offset by an overall negative impact stemming from the net working capital development. Predominantly, the net working capital development was impacted by an increase in inventories and trade receivables due to high stock inbound and business volumes.

Cash outflow from investing activities during the first six months of the year essentially contains capex, being the sum of the payments for investments in property, plant and equipment and intangible assets, amounting to EUR 91.4m (prior-year period: EUR 91.1m). Capex mainly consisted of investments in the logistics infrastructure, relating primarily to the fulfillment center in Rotterdam (Bleiswijk), the Netherlands, as well as investments in internally developed software. In HY1 2020, cash flow from investing activities also contained a compensating cash inflow of EUR 6.0m from the sale of a disposal group.

As a result, free cash flow improved by EUR 127.7m from EUR 39.9m to EUR 167.6m compared to the prior year.

In Q1 2021, Zalando repaid the revolving credit facility (RCF) drawn in Q1 2020, resulting in cash outflows from financing activities of EUR 375.0m. Additionally, Zalando spent EUR 105.7m to repurchase its own treasury shares in May and June 2021. In addition to this, cash flow from financing activities contains cash outflows for the repayment of the principal portion of lease liabilities of EUR 41.3m (prior-year period: EUR 32.8m) and strike price payments received from the exercise of employee stock options of EUR 19.4m (prior-year period: EUR 21.1m).

Aggregate cash and cash equivalents decreased by EUR 345.4m in the first six months of 2021, resulting in Zalando carrying cash and cash equivalents of EUR 2,298.7m as of June 30, 2021.

1.2.5 Financial Position

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

Assets

IN EUR M	Jun 30, 2021		Dec 31, 2020		Change	
Non-current assets	1,767.0	26.2%	1,560.0	24.0%	207.0	13.3%
Current assets	4,976.6	73.8%	4,934.8	76.0%	41.8	0.8%
Total assets	6,743.6	100.0%	6,494.8	100.0%	248.8	3.8%

Equity and Liabilities

IN EUR M	Jun 30, 2021		Dec 31, 2020		Change	
Equity	2,260.0	33.5%	2,151.1	33.1%	108.9	5.1%
Non-current liabilities	1,559.1	23.1%	1,404.2	21.6%	154.9	11.0%
Current liabilities	2,924.5	43.4%	2,939.5	45.3%	-15.0	-0.5%
Total equity and liabilities	6,743.6	100.0%	6,494.8	100.0%	248.8	3.8%

Compared to December 31, 2020, Zalando's total assets increased by EUR 248.8m to EUR 6,743.6m. The statement of financial position is dominated by working capital, cash and cash equivalents as well as equity.

In the first six months of 2021, additions to intangible assets amounted to EUR 43.2m (prior-year period: EUR 37.7m). Additions to property, plant and equipment totaled EUR 45.2m (prior-year period: EUR 41.0m), mainly relating to the fulfillment center in Rotterdam (Bleiswijk), the Netherlands, and were offset by amortization and depreciation.

Right-of-use assets have a carrying amount of EUR 591.0m as of June 30, 2021. The steep increase of EUR 179.7m in Q1 2021 that mainly resulted from the new lease contracts, starting in Q1 2021, for an office building in Berlin, Germany, a warehouse in Rotterdam (Bleiswijk), the Netherlands and two new Outlet stores in Constance and Düsseldorf, Germany, was partly offset in Q2 2021. With the commencement of a sublease agreement for office space in April 2021, right-of-use assets decreased by EUR 52.2m. Furthermore, a receivable from the sublease of EUR 65.8m has been recognized in non-current financial assets.

Inventories mainly comprise goods required for Zalando's wholesale business. During the first quarter of 2020, Zalando had recognized an exceptional inventory write-down of EUR 40.2m which was then partly reversed in Q2 2020 (EUR 11.3m). The increase in inventories from EUR 1,361.2m to EUR 1,550.7m largely relates to the higher stock inbound level in Q2 2021.

Trade and other receivables as reported as of June 30, 2021 are all current. The increase by 17.2% to EUR 706.1m is primarily attributable to the higher sales volume. Prepayments are recognized in trade and other receivables and increased by EUR 0.2m to EUR 0.8m.

In the first half of 2021, equity rose from EUR 2,151.1m to EUR 2,260.0m. The EUR 108.9m increase primarily stems from the positive net income in the period and from share-based compensation, partly offset by repurchases of treasury shares as part of the share buy-back program in May and June 2021. In the reporting period, the equity ratio increased from 33.1% at the beginning of the year to 33.5% as of June 30, 2021.

Lease liabilities have a carrying amount of EUR 684.9m as of June 30, 2021, thereof EUR 590.1m non-current, and EUR 94.9m current. They represent the discounted financial obligations resulting from lease contracts in accordance with IFRS 16. The steep increase by 32.6% results from the new lease contracts entered into Q1 2021.

Current borrowings dropped by EUR 376.4m, mainly resulting from the repayment of the revolving credit facility in Q1 2021, which was originally drawn in the first quarter of 2020. Trade payables and similar liabilities increased by EUR 193.5m to EUR 2,244.0m in the first six months of 2021, primarily due to deliveries of merchandise in connection with the higher business volume and higher stock inbounds.

Under reverse factoring agreements, suppliers' claims against Zalando totaling EUR 481.2m as of June 30, 2021 were transferred to various factoring providers (December 31, 2020: EUR 449.8m). These items were recognized in the statement of financial position under trade payables and similar liabilities.

Net working capital, consisting of inventories and trade and other receivables less trade payables and similar liabilities, rose from EUR -87.4m as of December 31, 2020 to EUR 12.8m as of June 30, 2021.

Overall Assessment

The Management Board views the business development in the first two quarters of 2021 as very positive. Zalando significantly increased its GMV and revenue, thanks to the company's ability to attract and retain customers and to grow its Partner Business. The group took advantage of the accelerated market transition from offline to online under the extended lock-downs in Europe and steadily grew its customer base and improved its customer KPIs. Zalando's EBIT margin improved well during the first half of 2021, driven by an increased gross margin, and a reduced fulfillment cost ratio, partly offset by higher marketing investments. Overall, Zalando is delivering on its target growth and margin corridor and can look back on a successful first half of 2021.

1.2.6 Employees

The headcount increased by 1,628 to 15,822 employees as of June 30, 2021, compared to 14,194 employees as of December 31, 2020.

1.3 Subsequent Events

No significant events occurred between the reporting date (June 30, 2021) and the date on which the interim consolidated financial statements and the interim group management report were authorized for issue by the Management Board (August 3, 2021) which could materially affect the presentation of the financial performance and position of the group.

1.4 Risk and Opportunity Report

Zalando's Risk & Opportunity Management system provides a framework to consistently assess Zalando's opportunities and risks in a changing environment. At present, by means of our enterprise risk assessment process we have not identified any risks that might threaten Zalando as a going concern.

Zalando is exposed to risks that may negatively impact business activities, the group's financial situation, or its assets, in particular in terms of reputation and image. With the recent easing of lockdowns, it has become more challenging than ever to appropriately forecast the exact transition path from pandemic to post-pandemic times. Uncertainties in regard to customer behavior present constant planning and forecasting challenges which are monitored to allow us to react quickly and to steer our business in a flexible and agile manner.

Nevertheless, the risk categories described in the Risk and Opportunity section in the annual report 2020 remain valid in the current reporting period. No additional risk clusters have been assessed as material or critical. Moreover, the return rate opportunity reported in the previous HY update has already been exploited since we were able to benefit from an ongoing, yet likely temporary reduction in return rates driven by the pandemic-induced customer mix, category mix and reduced customer mobility.

1.5 Outlook

1.5.1 Future Macroeconomic and Industry-Specific Situation

Rising vaccination rates in Europe are expected to create a positive economic outlook. However, the uncertainty caused by the pandemic persists, and the spread of virus variants still makes it difficult to predict to what extent and how fast which European economies will recover in the course of the year.

After the significant economic downturn in 2020, the latest OECD Economic Outlook predicts that the European economy will recover by the end of 2022. For 2021 and 2022, GDP growth is forecast at 4.3% and 4.4%, respectively. Accordingly, private consumption will also recover, although this recovery is expected to be more gradual. In Germany, private consumption is anticipated to decline only slightly in 2021, before rising almost to pre-pandemic levels in 2022. This delayed recovery can be explained by the fact that pandemic-related savings are more likely to be accumulated by higher income groups, who have a lower propensity to spend it on consumer goods.⁶ German GDP is projected to grow by 3.3% in 2021 and 4.4% in 2022.

The table below shows the percentage changes of private consumption for the period 2018 through 2022.

Private Consumption Growth per Country

	Historical data			Forecast projection	
	2018	2019	2020	2021	2022
Europe Area	1.5	1.3	-8.0	2.5	6.0
Germany	1.2	1.7	-6.3	-0.3	6.9
Switzerland	0.8	1.4	-4.5	3.6	3.0
Spain	1.8	0.9	-12.1	6.4	5.6
France	0.8	1.5	-7.3	4.4	6.5
Italy	0.9	0.4	-10.7	3.1	5.2

Source: OECD Economic Outlook – May 2021

Easing governmental restrictions and the recovery in private consumption will likely benefit brick-and-mortar fashion retailers in particular. In conjunction with online retailing, which has increased its market share especially during the period affected by the pandemic, the European fashion market is projected to grow by 8.7% in 2021.⁷ Also for the coming years, online penetration is expected to continue to increase and we remain convinced that Zalando is well positioned to continue on its strong growth trajectory and to gain additional market share going forward.

6) OECD Economic Outlook – May 2021

7) Euromonitor, Europe excl. Russia – January 2021

1.5.2 Guidance

During the first six months of 2021 the company continued to experience tailwinds from the continued strong shift in consumer demand from offline to online as well as changes in customer buying behaviour on its platform resulting in temporary return rate benefits.

Although significant uncertainty remains with regards to the further evolution of the pandemic throughout 2021, the company continues to assume a gradual return to the “new normal” in the second half of the year with some lighter restrictions remaining in place until the end of 2021.

Based on its strong half-year performance and unchanged expectations for the second half of the year, the company therefore confirms its full year guidance for 2021 as outlined in May.

Zalando continues to anticipate GMV growth between 31% and 36% and revenue growth between 26% and 31% for 2021. Based on an outstanding topline performance and continued return rate benefits in the first half of this year, the company now expects adjusted EBIT in the upper half of our guided range of EUR 400.0m to EUR 475.0m.

The company will continue to invest into its logistics and technology platform. In terms of capital expenditure, Zalando now expects that capital expenditures for 2021 will be around EUR 350.0m (initial guidance of EUR 350.0m to EUR 400.0m). All major logistics infrastructure projects to enable continued strong growth remain on track, yet some capital expenditure will be shifted into 2022. Furthermore, the group continues to expect negative net working capital for the fiscal year 2021.

1.5.3 Overall Assessment by the Management Board of ZALANDO SE

Overall, the financial performance and position show that at the time of preparing the half-year report of the fiscal year 2021, the economic condition of the group remains good.

Berlin, August 3, 2021

The Management Board

Robert Gentz David Schneider James M. Freeman, II David Schröder Dr. Astrid Arndt

Interim Consolidated Financial Statements

2.1 Consolidated Statement of Comprehensive Income

Consolidated Statement of Comprehensive Income

IN EUR M	Notes	Apr 1 – Jun 30, 2021	Apr 1 – Jun 30, 2020	Jan 1 – Jun 30, 2021	Jan 1 – Jun 30, 2020
Revenue	(1.)	2,733.1	2,034.7	4,970.9	3,558.9
Cost of sales	(2.)	-1,524.2	-1,131.4	-2,849.0	-2,117.6
Gross profit		1,208.9	903.3	2,122.0	1,441.3
Fulfillment costs		-662.1	-517.2	-1,232.9	-973.3
Marketing costs		-267.7	-105.3	-440.7	-228.8
Administrative expenses		-107.8	-81.5	-199.9	-165.7
Other operating income		17.4	1.5	19.9	15.6
Other operating expenses		-2.4	-2.3	-3.4	-3.7
Earnings before interest and taxes (EBIT)		186.4	198.4	264.9	85.3
Interest and similar income		3.1	1.9	1.8	3.7
Interest and similar expenses		-16.5	-7.3	-29.4	-17.0
Result of investments accounted for using the equity method		0.0	0.0	0.0	0.1
Other financial result		1.4	4.6	-11.9	-8.2
Financial result		-11.9	-0.7	-39.4	-21.4
Earnings before taxes (EBT)		174.5	197.7	225.5	64.0
Income taxes	(3.)	-54.1	-75.1	-70.6	-27.8
Net income for the period		120.4	122.6	154.9	36.2
thereof net income attributable to the shareholders of ZALANDO SE		120.4	122.6	154.9	36.2
thereof net income attributable to non-controlling interests		0.0	0.0	0.0	0.0
Net income for the period as a percentage of revenue		4.4%	6.0%	3.1%	1.0%
Basic earnings per share (in EUR)	(4.)	0.46	0.49	0.60	0.15
Diluted earnings per share (in EUR)	(4.)	0.45	0.47	0.60	0.14

Consolidated Statement of Comprehensive Income

IN EUR M	Apr 1 – Jun 30, 2021	Apr 1 – Jun 30, 2020	Jan 1 – Jun 30, 2021	Jan 1 – Jun 30, 2020
Net income for the period	120.4	122.6	154.9	36.2
Items recycled to profit or loss in subsequent periods				
Effective portion of gains/losses from cash flow hedges, net of tax	-18.6	24.1	10.3	13.9
Exchange differences on translation of foreign financial statements	-2.7	3.4	-9.3	-5.1
Other comprehensive income	-21.3	27.4	1.0	8.8
Total comprehensive income	99.1	150.0	155.9	44.9
thereof total comprehensive income attributable to the shareholders of ZALANDO SE	99.1	150.0	155.9	44.9
thereof total comprehensive income attributable to non-controlling interests	0.0	0.0	0.0	0.0

2.2 Consolidated Statement of Financial Position

Consolidated Statement of Financial Position – Assets

IN EUR M	Notes	Jun 30, 2021	Dec 31, 2020
Non-current assets			
Intangible assets		248.4	236.0
Property, plant and equipment		807.8	810.1
Financial assets		79.6	11.9
Right-of-use assets	(6.)	591.0	479.8
Deferred tax assets		33.6	15.4
Non-financial assets		5.0	5.1
Investments accounted for using the equity method		1.7	1.7
		1,767.0	1,560.0
Current assets			
Inventories	(5.)	1,550.7	1,361.2
Trade and other receivables		706.1	602.5
Other financial assets		46.4	32.0
Other non-financial assets		374.8	295.1
Cash and cash equivalents	(9.)	2,298.7	2,644.0
		4,976.6	4,934.8
Total assets		6,743.6	6,494.8

Consolidated Statement of Financial Position – Equity and Liabilities

IN EUR M	Notes	Jun 30, 2021	Dec 31, 2020
Equity			
Issued capital		258.9	253.1
Capital reserves		1,376.2	1,428.9
Other reserves		-6.4	-7.3
Retained earnings		631.5	476.6
Equity of shareholders of ZALANDO SE		2,260.2	2,151.3
Non-controlling interest		-0.2	-0.2
	(7.)	2,260.0	2,151.1
Non-current liabilities			
Provisions		47.5	47.7
Lease liabilities	(6.)	590.1	443.0
Convertible bonds		884.3	873.7
Other financial liabilities		12.0	15.6
Other non-financial liabilities		4.7	5.1
Deferred tax liabilities		20.6	19.1
		1,559.1	1,404.2
Current liabilities			
Provisions		0.0	0.5
Lease liabilities	(6.)	94.9	73.7
Borrowings		1.3	377.7
Trade payables and similar liabilities	(8.)	2,244.0	2,050.5
Prepayments received	(8.)	49.9	47.1
Income tax liabilities		38.9	9.6
Other financial liabilities		164.0	145.6
Other non-financial liabilities		331.5	234.8
		2,924.5	2,939.5
Total equity and liabilities		6,743.6	6,494.8

2.3 Consolidated Statement of Changes in Equity

Consolidated Statement of Changes in Equity 2021

IN EUR M	Notes	Issued capital	Capital reserves
As of Jan 1, 2021		253.1	1,428.9
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	(7.)	6.3	1.8
Transfer of treasury shares	(7.)	0.6	10.8
Repurchase of treasury shares	(7.)	-1.2	-104.5
Share-based payments		0.0	26.0
Deferred taxes for share-based payments		0.0	13.2
As of Jun 30, 2021		258.9	1,376.2

Consolidated Statement of Changes in Equity 2020

IN EUR M	Notes	Issued capital	Capital reserves
As of Jan 1, 2020		248.7	1,200.5
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	(7.)	1.3	19.8
Transfer/repurchase of treasury shares	(7.)	0.1	-0.1
Share-based payments		0.0	25.6
As of Jun 30, 2020		250.1	1,245.8

Consolidated Statement of Changes in Equity 2021

Other reserves						
Cash flow hedges	Currency translation	Retained earnings	Shareholders of ZALANDO SE	Non-controlling interest		Total
-6.7	-0.6	476.6	2,151.3	-0.2		2,151.1
0.0	0.0	154.9	154.9	0.0		154.9
10.3	-9.3	0.0	1.0	0.0		1.0
10.3	-9.3	154.9	155.9	0.0		155.9
0.0	0.0	0.0	8.0	0.0		8.0
0.0	0.0	0.0	11.4	0.0		11.4
0.0	0.0	0.0	-105.7	0.0		-105.7
0.0	0.0	0.0	26.0	0.0		26.0
0.0	0.0	0.0	13.2	0.0		13.2
3.6	-9.9	631.5	2,260.2	-0.2		2,260.0

Consolidated Statement of Changes in Equity 2020

Other reserves						
Cash flow hedges	Currency translation	Retained earnings	Shareholders of ZALANDO SE	Non-controlling interest		Total
-15.2	-0.4	250.4	1,683.9	-0.2		1,683.8
0.0	0.0	36.2	36.2	0.0		36.2
13.9	-5.1	0.0	8.8	0.0		8.8
13.9	-5.1	36.2	44.9	0.0		44.9
0.0	0.0	0.0	21.1	0.0		21.1
0.0	0.0	0.0	0.0	0.0		0.0
0.0	0.0	0.0	25.6	0.0		25.6
-1.4	-5.5	286.6	1,775.6	-0.2		1,775.4

2.4 Consolidated Statement of Cash Flows

Consolidated Statement of Cash Flows

IN EUR M		Notes	Apr 1 – Jun 30, 2021	Apr 1 – Jun 30, 2020	Jan 1 – Jun 30, 2021	Jan 1 – Jun 30, 2020
1.	Net income for the period		120.4	122.6	154.9	36.2
2.	+ Non-cash expenses from share-based payments		11.3	13.5	26.0	27.9
3.	+ Depreciation of property, plant and equipment, and right-of-use assets and amortization of intangible assets		57.3	52.2	110.5	102.8
4.	+ Income taxes	(3.)	54.1	75.1	70.6	27.8
5.	- Income taxes paid, less refunds		-25.5	-10.5	-50.5	-31.9
6.	+/- Increase/decrease in provisions		-0.3	-1.1	-0.5	-2.7
7.	-/+ Other non-cash income/expenses		5.3	0.6	7.4	2.5
8.	+/- Decrease/increase in inventories		208.4	294.6	-189.5	80.6
9.	+/- Decrease/increase in trade and other receivables		-147.7	-115.3	-104.1	-13.6
10.	+/- Increase/decrease in trade payables and similar liabilities	(8.)	-0.8	-104.4	197.4	-175.3
11.	-/+ Increase/decrease in other assets/liabilities		79.5	58.5	36.8	70.7
12.	= Cash flow from operating activities	(9.)	361.8	385.8	259.0	125.0
13.	+ Proceeds from disposal of property, plant and equipment, intangible assets and financial assets		0.0	0.0	0.0	6.0
14.	- Cash paid for investments in property, plant and equipment		-31.0	-25.1	-47.1	-54.1
15.	- Cash paid for investments in intangible assets		-20.6	-18.2	-44.3	-37.0
18.	+/- Change in restricted cash		-0.2	0.0	-0.2	0.0
19.	= Cash flow from investing activities	(9.)	-51.8	-43.3	-91.6	-85.1

Consolidated Statement of Cash Flows

IN EUR M	Notes	Apr 1 – Jun 30, 2021	Apr 1 – Jun 30, 2020	Jan 1 – Jun 30, 2021	Jan 1 – Jun 30, 2020
20. +	Cash received from capital increases by the shareholders and stock option exercises less transaction costs	5.0	20.5	19.4	21.1
21. -	Repurchase of treasury shares	-105.7	0.0	-105.7	0.0
22. +/-	Cash received from loans/cash repayments of loans	-1.4	-0.7	-376.4	373.6
23. -	Cash payments for the principal portion of lease liabilities	-23.6	-17.5	-41.3	-32.8
24. =	Cash flow from financing activities	(9.)	2.2	-503.9	361.8
25. =	Net change in cash and cash equivalents from cash-relevant transactions	184.3	344.7	-336.5	401.8
26. +/-	Change in cash and cash equivalents due to exchange rate movements	-9.5	-1.3	-8.8	-0.8
27. +	Cash and cash equivalents at the beginning of the period	2,123.9	1,034.0	2,644.0	976.5
28. =	Cash and cash equivalents as of June 30	(9.)	2,298.7	2,298.7	1,377.5

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

Cash-Effective Interest

IN EUR M	Apr 1 – Jun 30, 2021	Apr 1 – Jun 30, 2020	Jan 1 – Jun 30, 2021	Jan 1 – Jun 30, 2020
Interest paid	-10.2	-6.4	-17.8	-13.6
Interest received	2.5	1.8	1.0	3.1
Total	-7.7	-4.6	-16.8	-10.6

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

Free Cash Flow

IN EUR M	Apr 1 – Jun 30, 2021	Apr 1 – Jun 30, 2020	Jan 1 – Jun 30, 2021	Jan 1 – Jun 30, 2020
Cash flow from operating activities	361.8	385.8	259.0	125.0
Payments received from the sale of non-current assets	0.0	0.0	0.0	6.0
Cash paid for investments in property, plant and equipment	-31.0	-25.1	-47.1	-54.1
Cash paid for investments in intangible assets	-20.6	-18.2	-44.3	-37.0
Free cash flow	310.2	342.5	167.6	39.9

2.5 Condensed Notes to the Consolidated Financial Statements

2.5.1 Corporate Information

ZALANDO SE is a publicly listed European 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 interim condensed and reviewed consolidated financial statements as of June 30, 2021 of ZALANDO SE comply with International Financial Reporting Standards (IFRS) as adopted by the EU. These interim condensed consolidated financial statements were prepared in accordance with IAS 34 Interim Financial Reporting in conjunction with IAS 1 Presentation of Financial Statements. The requirements 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 ended December 31, 2020.

Accounting and Measurement Principles

The accounting policies and recognition and measurement methods applied in the consolidated financial statements as of December 31, 2020 have been applied without change.

As explained in the 2020 annual report, the first-time application of amendments to IFRS accounting standards or interpretations in fiscal year 2021 did not have any material impact on the interim condensed consolidated financial statements.

The interim condensed consolidated financial statements are presented in euros.

Due to rounding, it is possible that figures may not add up exactly to the total stated, and the percentages presented may not precisely reflect the figures they correspond to.

Basis of Consolidation

The number of subsidiaries included in the basis of consolidation increased from 47 as of December 31, 2020 to 48 as of June 30, 2021.

2.5.2 Selected Notes to the Consolidated Statement of Comprehensive Income

(1.) Revenue

Revenue

IN EUR M	Apr 1 – Jun 30, 2021	Apr 1 – Jun 30, 2020	Jan 1 – Jun 30, 2021	Jan 1 – Jun 30, 2020
Revenue from the sale of merchandise	2,439.1	1,884.3	4,445.4	3,317.8
Revenue from other services	294.1	150.4	525.5	241.1
Total	2,733.1	2,034.7	4,970.9	3,558.9

In Q2 2021, Zalando increased its revenue by EUR 698.4m from EUR 2,034.7m to EUR 2,733.1m compared to the prior-year period. This corresponds to year-on-year revenue growth of 34.3%.

In the first six months of 2021, revenue rose by 39.7% to EUR 4,970.9m (prior-year period: EUR 3,558.9m) compared to the corresponding prior-year period, reflecting intensive new customer acquisitions and a strongly performing Partner Business during the first two quarters of 2021. Performance was supported by the extended lockdowns throughout Europe directing consumer demand toward digital offerings. After a very strong spring/summer season start in Q1, Zalando saw its strong seasonal trading continue and achieved both a strong Mid Season Sale and a successful start into the End of Season Sale in Q2 2021.

(2.) Cost of Sales

Cost of Sales

IN EUR M	Apr 1 – Jun 30, 2021	Apr 1 – Jun 30, 2020	Jan 1 – Jun 30, 2021	Jan 1 – Jun 30, 2020
Non-personnel costs	1,474.6	1,097.6	2,754.0	2,047.8
Personnel costs	49.6	33.8	95.0	69.8
Total	1,524.2	1,131.4	2,849.0	2,117.6

Cost of sales mainly consists of cost of materials, personnel costs, write-downs on inventories, third-party services and infrastructure costs. For the first six months, the cost of sales rose from EUR 2,117.6m to EUR 2,849.0m.

Cost of materials in the group totaled EUR 2,406.6m (prior-year period: EUR 1,794.2m) and write-downs on inventories amounted to EUR 129.2m (prior-year period: EUR 149.6m).

Zalando generated a gross profit of EUR 2,122.0m in the first half of 2021 (prior-year period: EUR 1,441.3m) with the gross margin increasing by 2.2 percentage points to 42.7%.

The positive development of cost of sales can largely be explained by the exceptional

inventory write-down of EUR 28.9m recognized in HY1 2020 as a result of revised sales expectations in response to the dramatic drop in demand due to the coronavirus crisis in Europe. Additionally, the gross profit margin benefited from a strong sell-through of fall/winter 2020 (FW20) and spring/summer 2021 (SS21) items, as well as the strong Partner Business performance in the first six months of this year.

(3.) Income Taxes

Income Taxes

IN EUR M	Apr 1 – Jun 30, 2021	Apr 1 – Jun 30, 2020	Jan 1 – Jun 30, 2021	Jan 1 – Jun 30, 2020
Deferred taxes	-3.1	50.6	-8.1	1.8
Current taxes	57.2	24.5	78.7	26.0
Total	54.1	75.1	70.6	27.8

Income tax expense consists of current tax expense and deferred tax income. The increase in the second quarter of 2021 is mainly related to the higher taxable income compared to the first quarter.

(4.) Earnings per Share

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

Basic Earnings per Share (EPS)

	Apr 1 – Jun 30, 2021	Apr 1 – Jun 30, 2020	Jan 1 – Jun 30, 2021	Jan 1 – Jun 30, 2020
Net income for the period attributable to the shareholders of ZALANDO SE (in EUR m)	120.4	122.6	154.9	36.2
Basic weighted average number of shares (in millions)	259.2	249.2	256.7	248.9
Total (in EUR)	0.46	0.49	0.60	0.15

The basic earnings per share developed in line with the increase in net income attributable to the shareholders of ZALANDO SE during the first six months of 2021 in comparison to the corresponding prior-year period.

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.

Diluted Earnings per Share (EPS)

	Apr 1 – Jun 30, 2021	Apr 1 – Jun 30, 2020	Jan 1 – Jun 30, 2021	Jan 1 – Jun 30, 2020
Net income for the period attributable to the shareholders of ZALANDO SE (in EUR m)	125.7	122.6	165.5	36.2
Diluted weighted average number of shares (in millions)	276.8	259.4	277.1	258.6
Total (in EUR)	0.45	0.47	0.60	0.14

The dilutive effect stems solely from equity-settled share-based payment awards granted to employees. All employee options were considered in the calculation of the diluted earnings per share, except for those equity-settled share-based payments containing performance conditions that had not yet been met as of the reporting date. As a result, options granted within the scope of LTI 2021 (prior-year period: options granted within the scope of LTI 2018, LTI 2019 and EIP in fiscal year 2018 and under the VSOP 2018) were not taken into account in the calculation of diluted earnings. Furthermore, options that were out of the money during the respective reporting period were excluded from the calculation.

2.5.3 Selected Notes to the Consolidated Statement of Financial Position

(5.) Inventories

Inventories mainly comprise goods required for Zalando's wholesale business. The increase in inventories from EUR 1,361.2m to EUR 1,550.7m predominantly relates to the higher stock inbound level in Q2 2021.

(6.) Right-of-use Assets and Lease Liabilities

Right-of-use assets have a carrying amount of EUR 591.0m as of June 30, 2021. The steep increase of EUR 179.7m in Q1 2021 that mainly resulted from the new lease contracts, starting in Q1 2021, for an office building in Berlin, Germany, a warehouse in Rotterdam (Bleiswijk), the Netherlands and two new Outlet stores in Constance and Düsseldorf, Germany, was partly offset in Q2 2021. With the commencement of a sublease agreement for office space in April 2021, right-of-use assets decreased by EUR 52.2m. In addition to this, a receivable from the sublease of EUR 65.8m has been recognized in non-current financial assets.

Lease liabilities have a carrying amount of EUR 684.9m as of June 30, 2021, thereof EUR 590.1m non-current, and EUR 94.9m current. They represent the discounted financial obligations resulting from lease contracts in accordance with IFRS 16. The steep increase by 32.6% mainly results from the new lease contracts entered into in Q1 2021.

(7.) Equity

In the first half of 2021, equity increased from EUR 2,151.1m to EUR 2,260.0m.

The EUR 108.9m increase primarily stems from the positive net income of the period and from share-based compensation, partly offset by repurchases of treasury shares (1.2m shares for a total of EUR 105.7m) as part of the share buy-back program in May and June 2021.

In the reporting period, the equity ratio increased from 33.1% at the beginning of the year to 33.5% as of June 30, 2021.

(8.) Trade Payables and Similar Liabilities and Prepayments Received

Trade payables and similar liabilities increased by EUR 193.5m to EUR 2,244.0m primarily due to deliveries of merchandise in connection with the higher business volume and stock inbounds.

Under reverse factoring agreements, suppliers' claims against Zalando totaling EUR 481.2m as of June 30, 2021 were transferred to various factoring providers (December 31, 2020: EUR 449.8m). These items were recognized in the statement of financial position under trade payables and similar liabilities.

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

(9.) Notes to the Statement of Cash Flows

In the first half of 2021, Zalando generated a positive cash flow from operating activities of EUR 259.0m, an increase of EUR 134.0m compared to the prior-year period (prior-year period: EUR 125.0m). The operating cash flow of the first six months of the year was largely driven by the strong positive net income, which was only partly offset by an overall negative impact stemming from the net working capital development. Predominantly, the net working capital development was impacted by an increase in inventories and trade receivables due to high stock inbound and business volumes.

Cash outflow from investing activities during the first six months of the year essentially contains capex, being the sum of the payments for investments in property, plant and equipment and intangible assets, amounting to EUR 91.4m (prior-year period: EUR 91.1m). Capex mainly consisted of investments in the logistics infrastructure, relating primarily to the fulfillment center in Rotterdam (Bleiswijk), the Netherlands, as well as investments in internally developed software. In HY1 2020, cash flow from investing activities also contained a compensating cash inflow of EUR 6.0m from the sale of a disposal group.

In Q1 2021, Zalando repaid the revolving credit facility drawn in Q1 2020, resulting in cash outflows from financing activities of EUR 375.0m. Additionally, Zalando spent EUR 105.7m to repurchase its own treasury shares (1.2m shares) in May and June 2021. In addition to this, cash flow from financing activities contains cash outflows for the repayment of the principal portion of lease liabilities of EUR 41.3m (prior-year period: EUR 32.8m) and strike price payments received from the exercise of employee stock options of EUR 19.4m (prior-year period: EUR 21.1m).

Aggregate cash and cash equivalents decreased by EUR 345.4m in the first six months of 2021, resulting in Zalando carrying cash and cash equivalents of EUR 2,298.7m as of June 30, 2021.

2.5.4 Other Selected Notes

(10.) Information about Related Parties

Zalando 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.

These transactions resulting from the purchase of goods and services gave rise to liabilities of EUR 165.4m as of the reporting date (prior-year period: EUR 126.8m). Of this amount, EUR 165.4m (prior-year period: EUR 123.1m) is due to a reverse factoring provider on account of reverse factoring agreements between Zalando and related parties. As a result, there were trade payables or similar liabilities due directly to related parties totaling EUR 0.0m (prior-year period: EUR 3.7m). Trade receivables from related parties amount to EUR 0.3m (prior-year period: EUR 0.2m). Furthermore, Zalando provided services to related parties of around EUR 15.0m (prior-year period: EUR 10.4m).

Merchandise of EUR 149.7m was ordered from related parties in the reporting period. The order volume totaled EUR 117.5m in the comparative period of the prior year. In addition, goods totaling EUR 1.7m were sold to related parties (prior-year period: EUR 1.3m). The cost of services received from related parties came to EUR 0.0m in the reporting period (prior-year period: EUR 0.2m).

In addition, members of the Management Board and entities fully owned by members of the Management Board have exercised options during the reporting period – namely 6.2m options under SOP 2013, 0.2m options under LTI 2019, 0.1m options under SOP 2011 and 0.1m options under VSOP 2018.

(11.) Segment Reporting

The condensed segment results for the second quarter of 2021 highlight the strong performance as well as the continuous growth of the Fashion Store and Offprice segment.

Segment Development for the Quarter

Segment Results of the Group Q2 2021

IN EUR M	Fashion Store	Offprice	All other segments	Total	Reconciliation	Total group
Revenue	2,490.8	360.5	66.8	2,918.0	-184.9	2,733.1
thereof intersegment revenue	173.1	0.5	10.9	184.5	-184.5	0.0
Earnings before interest and taxes (EBIT)	159.1	26.0	-0.5	184.6	1.8	186.4

Segment Results of the Group Q2 2020

IN EUR M	Fashion Store	Offprice	All other segments	Total	Reconciliation	Total group
Revenue	1,870.2	252.2	40.1	2,162.5	-127.8	2,034.7
thereof intersegment revenue	118.4	0.0	9.4	127.8	-127.8	0.0
Earnings before interest and taxes (EBIT)	186.9	14.4	-2.2	199.1	-0.7	198.4

Financial information for the Fashion Store segment, including intersegment transactions, breaks down into the regions DACH and Rest of Europe as follows:

Fashion Store Results by Region Q2 2021

IN EUR M	DACH	Rest of Europe	Fashion Store
Revenue	1,159.3	1,331.4	2,490.8
thereof intersegment revenue	88.8	84.2	173.1
Earnings before interest and taxes (EBIT)	121.9	37.1	159.1

Fashion Store Results by Region Q2 2020

IN EUR M	DACH	Rest of Europe	Fashion Store
Revenue	863.4	1,006.8	1,870.2
thereof intersegment revenue	54.0	64.4	118.4
Earnings before interest and taxes (EBIT)	118.8	68.2	186.9

In Q2 2021, revenue in the Fashion Store segment grew by 33.2%. The significant increase in revenue was mainly attributable to a significant increase in the number of orders, on the back of strong new customer acquisitions and the exceptional engagement of Zalando's existing customer base. This was the combined result of a strongly growing Partner Program offering customers an even more attractive assortment, together with the persistently growing trend toward online shopping. Profitability remained positive in the Fashion Store segment, with an EBIT margin of 6.4% in Q2 2021, equivalent to a decrease of 3.6 percentage points compared to the prior-year period. The decline of the EBIT margin mainly results from the increase in the marketing cost ratio. In the prior-year period Zalando had deliberately reduced investments in response to the coronavirus crisis while in Q2 2021 it increased personalized marketing investments. This was partly offset by the improvement in the fulfillment cost ratio thanks to the high utilization of our logistics infrastructure and favorable developments in the return rates. Furthermore, the reduction can be explained by the partial reversal of the inventory write-downs in Q2 2020. During the first quarter of 2020, Zalando had recognized an exceptional inventory write-down of EUR 40.2m which was partly reversed in Q2 2020 (EUR 11.3m).

The Offprice segment was able to maintain its strong performance with revenue growth of 42.9% in Q2 2021. The business of Zalando Lounge continued its steady growth trajectory, with the tailwind created by lockdown measures, and consumers' continued attraction to deals and discounts. The positive performance was to a small degree offset by the reopening of offline stores starting mid May. At the same time, the Outlet stores experienced a faster than expected ramp up after the lockdown restrictions were lifted. The Offprice segment recorded EBIT of EUR 26.0m with the EBIT margin increasing from 5.7% in the prior-year period to 7.2% in Q2 2021. The increase was largely driven by savings in fulfillment costs, partly offset by a decreased gross profit margin driven by high discount levels and higher marketing spending.

The revenue in all other segments grew by 66.5% in Q2 2021, primarily driven by the strong performance of Zalando Marketing Services (ZMS) as partners increasingly invested more in branding campaigns year on year, as well as solid revenue growth seen for our integration businesses. Profitability improved with the EBIT margin increasing by 4.7 percentage points to -0.8%, benefiting largely from the strong top-line performance.

Segment Development for the First Six Months

Segment Results of the Group HY 2021

IN EUR M	Fashion Store	Offprice	All other segments	Total	Reconciliation	Total group
Revenue	4,500.0	678.3	125.5	5,303.8	-332.9	4,970.9
thereof intersegment revenue	307.7	0.7	24.5	332.9	-332.9	0.0
Earnings before interest and taxes (EBIT)	212.7	50.0	-1.0	261.8	3.2	264.9

Segment Results of the Group HY 2020

IN EUR M	Fashion Store	Offprice	All other segments	Total	Reconciliation	Total group
Revenue	3,261.8	437.0	77.5	3,776.3	-217.4	3,558.9
thereof intersegment revenue	199.7	0.0	17.7	217.4	-217.4	0.0
Earnings before interest and taxes (EBIT)	75.3	20.6	-9.8	86.1	-0.7	85.3

Fashion Store Results by Region HY 2021

IN EUR M	DACH	Rest of Europe	Fashion Store
Revenue	2,080.3	2,419.7	4,500.0
thereof intersegment revenue	157.8	149.9	307.6
Earnings before interest and taxes (EBIT)	199.9	12.8	212.7

Fashion Store Results by Region HY 2020

IN EUR M	DACH	Rest of Europe	Fashion Store
Revenue	1,527.0	1,734.8	3,261.8
thereof intersegment revenue	93.6	106.1	199.7
Earnings before interest and taxes (EBIT)	101.1	-25.8	75.3

In the Fashion Store segment, revenue rose by 38.0% in the first six months of 2021 compared to the corresponding prior-year period. This development reflects the steady increase in customer demand fueled by the ongoing offline to online shift. The EBIT margin in the Fashion Store segment increased by 2.4 percentage points from 2.3% in the first six months of 2020 to 4.7% in the first six months of 2021. Key drivers were the improvement in the cost of sales ratio as there were no exceptional inventory write-downs comparable to those recognized in 2020 as well as a lower fulfillment cost ratio.

In the Offprice segment, revenue grew by 55.2% in the first six months of 2021 compared to the corresponding prior-year period. The Offprice segment recorded an EBIT margin of 7.4%, an increase of 2.7 percentage points compared to the prior-year period. The strong performance is largely attributable to the steady growth of Zalando Lounge during the first six months and supported by the reopening of the Outlet stores after lockdown restrictions were lifted.

In all other segments total revenue increased by 61.9% during the first half of the year compared to the prior-year period, the main reason being the strong performance of ZMS. The EBIT margin in all other segments increased by 11.9 percentage points to -0.8% in the first six months of 2021 in comparison to the first six months of 2020, benefiting largely from the strong top-line performance.

(12.) Subsequent Events

No significant events occurred between the reporting date (June 30, 2021) and the date the interim consolidated financial statements and the interim group management report were authorized for issue by the Management Board (August 3, 2021) which could materially affect the presentation of the financial performance and position of the group.

Berlin, August 3, 2021

The Management Board

Robert Gentz David Schneider James M. Freeman, II David Schröder Dr. Astrid Arndt

2.6 Responsibility Statement by the Management Board

We assure to the best of our knowledge and in accordance with the applicable reporting principles for half-yearly financial reporting, that the interim consolidated financial statements give a true and fair view of the assets, financial, and earnings position of the group, and that the interim group management report includes a fair review of the development and performance of the business and the position of the group, together with a description of the principal opportunities and risks associated with the expected development of the group for the remaining months of the fiscal year.

Berlin, August 3, 2021

The Management Board

Robert Gentz David Schneider James M. Freeman, II David Schröder Dr. Astrid Arndt

2.7 Review Report

To ZALANDO SE

We have reviewed the interim condensed consolidated financial statements of ZALANDO SE, Berlin, which comprise 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 for the period from January 1 to June 30, 2021, which are part of the half-year financial report pursuant to Sec. 115 WpHG [“Wertpapier-handelsgesetz”: German Securities Trading Act]. The executive directors are responsible for the preparation of the interim condensed consolidated financial statements in accordance with IFRSs on interim financial reporting as adopted by the EU and of the interim group management report in accordance with the requirements of the WpHG applicable to interim group management reports. Our responsibility is to issue a report on the interim condensed consolidated financial statements and the interim group management report based on our review.

We conducted our review of the interim condensed consolidated financial statements and of the interim group management report in compliance with German Generally Accepted Standards for the Review of Financial Statements promulgated by the Institut der Wirtschaftsprüfer [Institute of Public Auditors in Germany] (IDW). Those standards require that we plan and perform the review to obtain a certain level of assurance in our critical appraisal to preclude that the interim condensed consolidated financial statements are not prepared, in all material respects, in accordance with IFRSs on interim financial reporting as adopted by the EU and that the interim group management report is not prepared, in all material respects, in accordance with the requirements of the WpHG applicable to interim group management reports. A review is limited primarily to making inquiries of the company’s employees and analytical assessments and therefore does not provide the assurance obtainable from an audit of financial statements. Since, in accordance with our engagement, we have not performed an audit of financial statements, we cannot issue an auditor’s report.

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

Berlin, August 3, 2021

Ernst & Young GmbH
Wirtschaftsprüfungsgesellschaft

Ludwig	Haas
Wirtschaftsprüfer	Wirtschaftsprüfer
[German Public Auditor]	[German Public Auditor]

Service

3.1 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 returns. The number of customers who have completely canceled their orders is excluded.

Adjusted EBIT

We define adjusted EBIT as EBIT before equity-settled share-based payment expense, restructuring costs and non-operating one-time effects.

Adjusted EBITDA

We define adjusted EBITDA as EBITDA before equity-settled share-based payment expense, restructuring costs and non-operating one-time effects.

Average Basket Size

We define the average basket size as the gross merchandise volume (including the gross merchandise volume from our Partner Program) after cancellations and returns and including VAT, divided by the number of orders in the last 12 months of the reporting period. The gross merchandise volume is defined as the total amount spent by our customers (including VAT) less cancellations and returns during the last twelve months.

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.

Capex

The sum of the payments for investments in property, plant and equipment and intangible assets excluding payments for the acquisition of companies.

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 right-of-use assets 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).

GMV

GMV (gross merchandise volume) is defined as the value of all merchandise sold to customers after cancellations and returns and including VAT, dynamically reported. It does not include B2B revenues (e.g. Partner Program commission, Zalando Marketing Services or Zalando Fulfillment Solutions) and other B2C revenues (e.g. service charges like express delivery fees); these are included in revenue only. GMV is recorded based on the time of the customer order.

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. Due to a change in consent management following the GDPR introduction, some of the data is estimated using a statistical method.

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 cancellations 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. Due to a change in consent management following the GDPR introduction, some of the data is estimated using a statistical method.

3.2 Financial Calendar 2021

Financial Calendar

Date	Event
Wednesday, November 3	Publication of the third quarter results 2021

3.3 Imprint

Contact

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Investor Relations

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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 and German. 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/investor-relations>.

