

Half-Year Report **H1** 2020



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Zalando at a Glance

Key Figures

	Apr 1 – Jun 30, 2020	Apr 1 – Jun 30, 2019	Jan 1 – Jun 30, 2020	Jan 1 – Jun 30, 2019
Group key performance indicators				
Site visits (in millions)	1,296.2	986.4	2,433.7	1,910.3
Mobile visit share (in %)	85.9	83.5	85.3	83.0
Active customers (in millions)	34.1	28.3	34.1	28.3
Number of orders (in millions)	46.5	36.1	83.5	67.6
Average orders per active customer (LTM*)	4.7	4.6	4.7	4.6
Average basket size (LTM, in EUR)	56.9	56.7	56.6	56.9
Results of operations				
Gross merchandise volume (GMV) (in EUR m)	2,691.5	2,024.2	4,721.4	3,773.1
Revenue (in EUR m)	2,034.7	1,597.3	3,558.9	2,975.5
EBIT (in EUR m)	198.4	92.0	85.3	73.6
EBIT (as % of revenue)	9.8	5.8	2.4	2.5
Adjusted EBIT (in EUR m)	211.9	101.7	113.3	108.1
Adjusted EBIT (as % of revenue)	10.4	6.4	3.2	3.6
EBITDA (in EUR m)	250.7	143.3	188.2	167.7
EBITDA (as % of revenue)	12.3	9.0	5.3	5.6
Adjusted EBITDA (in EUR m)	264.1	153.1	216.1	202.3
Adjusted EBITDA (as % of revenue)	13.0	9.6	6.1	6.8
Financial position				
Net working capital (in EUR m)	-31.2	-147.7**	-31.2	-147.7**
Equity ratio (as % of balance sheet total)	37.9	38.9**	37.9	38.9**
Cash flow from operating activities (in EUR m)	385.8	143.2	125.0	84.6
Cash flow from investing activities (in EUR m)	-43.3	-56.8	-85.1	-81.1
Free cash flow (in EUR m)	342.5	86.5	39.9	8.1
Capex (in EUR m)	-43.3	-55.1	-91.1	-97.4
Cash and cash equivalents (in EUR m)	1,377.5	954.4	1,377.5	954.4
Other				
Employees (as of the reporting date)	13,744	13,763**	13,744	13,763**
Basic earnings per share (in EUR)	0.49	0.18	0.15	0.11
Diluted earnings per share (in EUR)	0.47	0.18	0.14	0.11

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.

*) Calculated based on the last twelve months (LTM).

**) As of Dec 31, 2019

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Interim Group Management Report

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1.1 Background to the Group

The statements made in the annual report 2019 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 2020

The first half year of 2020 was impacted by the COVID-19 pandemic. After isolated cases at the beginning of the year, mass infections started to spread in early/mid-March in northern Italy and shortly afterwards in many other countries of Europe including Germany, France, Spain and the UK. Governments took unprecedented measures to limit the spread of COVID-19 including country-wide lockdowns, closure of borders for non-essential cross border traffic and mandatory shutdown of large parts of all economic activity.

The spread of the virus and the following containment measures had a major impact on the economies throughout Europe. In many of the largest European economies, direct output losses during the lockdown periods have been estimated at 25-30% compared to normal periods of activity.¹ Services have been most affected, especially in sectors relying on direct contact between providers and clients, with restaurants and brick-and-mortar shopping being prime examples. At the same time, household savings have risen sharply and in many countries wages have been subsidized by government measures. Due to these effects in the first half year, private consumption throughout the euro area is estimated to have declined by 9.9%.² For Germany, currently our most important sales market, the decline is estimated to be around 6.0%.³

Brick-and-mortar fashion retail in Germany also suffered considerably during the lockdown from mid-March until mid-April. Revenue developments in the following months of May and June show a slight upward trend, although a considerable year-on-year decline in revenue continues to be recorded (May down 29%, June down 22%).⁴ In contrast, German e-commerce fashion retail (apparel & shoes), after the reluctance to buy in March and thus a decline of 2.7% in Q1 2020 compared to the previous year, shows a positive development in Q2 2020 with revenue growth of 12.7%, leading to total growth of 5.0% in HY1 2020 (EUR 8,826m incl. VAT).⁵

1.2.2 Financial Performance of the Group

In the second quarter of 2020, sales and overall performance recovered strongly after the dip in the first quarter where we saw a severe negative impact of the coronavirus pandemic on growth and performance. In Q2 2020, GMV and revenue grew by 33.0% and 27.4% respectively. The exceptional growth was enabled by the company's focused execution of the platform strategy and decisive crisis response on the one hand and changing consumer behavior, in particular the

¹ OECD Economic Outlook – June 2020

² OECD Economic Outlook – June 2020

³ OECD Economic Outlook – June 2020

⁴ Textilwirtschaft Revenue statistics - July 2020

⁵ behv consumer study - July 2020

accelerated transition from offline to online, on the other. As one reaction to the coronavirus pandemic, customers are increasingly turning to digital services. Together with the strong top line growth, Zalando achieved significant efficiency gains in fulfillment costs and reduced marketing investments, resulting in EBIT and adjusted EBIT of EUR 198.4m and EUR 211.9m respectively for the second quarter of 2020.

Condensed Consolidated Income Statement Q2 2020

IN EUR M	Apr 1 – Jun 30, 2020	As % of revenue	Apr 1 – Jun 30, 2019	As % of revenue	Change
Revenue	2,034.7	100.0%	1,597.3	100.0%	0.0pp
Cost of sales	-1,131.4	-55.6%	-866.9	-54.3%	-1.3pp
Gross profit	903.3	44.4%	730.4	45.7%	-1.3pp
Fulfillment costs	-517.2	-25.4%	-436.8	-27.3%	1.9pp
Marketing costs	-105.3	-5.2%	-130.4	-8.2%	3.0pp
Administrative expenses	-81.5	-4.0%	-70.3	-4.4%	0.4pp
Other operating income	1.5	0.1%	3.8	0.2%	-0.2pp
Other operating expenses	-2.3	-0.1%	-4.6	-0.3%	0.2pp
Earnings before interest and taxes (EBIT)	198.4	9.8%	92.0	5.8%	4.0pp

Condensed Consolidated Income Statement HY 2020

IN EUR M	Jan 1 – Jun 30, 2020	As % of revenue	Jan 1 – Jun 30, 2019	As % of revenue	Change
Revenue	3,558.9	100.0%	2,975.5	100.0%	0.0pp
Cost of sales	-2,117.6	-59.5%	-1,695.7	-57.0%	-2.5pp
Gross profit	1,441.3	40.5%	1,279.8	43.0%	-2.5pp
Fulfillment costs	-973.3	-27.3%	-832.6	-28.0%	0.6pp
Marketing costs	-228.8	-6.4%	-227.5	-7.6%	1.2pp
Administrative expenses	-165.7	-4.7%	-148.1	-5.0%	0.3pp
Other operating income	15.6	0.4%	9.0	0.3%	0.1pp
Other operating expenses	-3.7	-0.1%	-7.1	-0.2%	0.1pp
Earnings before interest and taxes (EBIT)	85.3	2.4%	73.6	2.5%	-0.1pp

Key Performance Indicators

KEY PERFORMANCE INDICATORS	Apr 1 – Jun 30, 2020	Apr 1 – Jun 30, 2019	Change	Jan 1 – Jun 30, 2020	Jan 1 – Jun 30, 2019	Change
Site visits (in millions)	1,296.2	986.4	31.4%	2,433.7	1,910.3	27.4%
Mobile visit share (as % of site visits)	85.9	83.5	2.3pp	85.3	83.0	2.3pp
Active customers (in millions)	34.1	28.3	20.4%	34.1	28.3	20.4%
Number of orders (in millions)	46.5	36.1	28.6%	83.5	67.6	23.6%
Average orders per active customer (LTM*)	4.7	4.6	3.3%	4.7	4.6	3.3%
Average basket size (LTM, in EUR)	56.9	56.7	0.3%	56.6	56.9	-0.5%
Gross merchandise volume (GMV) (in EUR m)	2,691.5	2,024.2	33.0%	4,721.4	3,773.1	25.1%
Revenue (in EUR m)	2,034.7	1,597.3	27.4%	3,558.9	2,975.5	19.6%
EBIT (in EUR m)	198.4	92.0	115.7%	85.3	73.6	16.0%
EBIT (as % of revenue)	9.8	5.8	4.0pp	2.4	2.5	-0.1pp
Adjusted EBIT (in EUR m)	211.9	101.7	108.3%	113.3	108.1	4.7%
Adjusted EBIT (as % of revenue)	10.4	6.4	4.0pp	3.2	3.6	-0.5pp
EBITDA (in EUR m)	250.7	143.3	74.9%	188.2	167.7	12.2%
Adjusted EBITDA (in EUR m)	264.1	153.1	72.6%	216.1	202.3	6.8%
Net working capital (in EUR m)	-31.2	-147.7**	-78.8%	-31.2	-147.7**	-78.8%
Operating cash flow (in EUR m)	385.8	143.2	169.4%	125.0	84.6	47.7%
Capex (in EUR m)	-43.3	-55.1	-21.4%	-91.1	-97.4	-6.5%
Free cash flow (in EUR m)	342.5	86.5	296.1%	39.9	8.1	>100%

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.

*) Calculated based on the last twelve months (LTM).

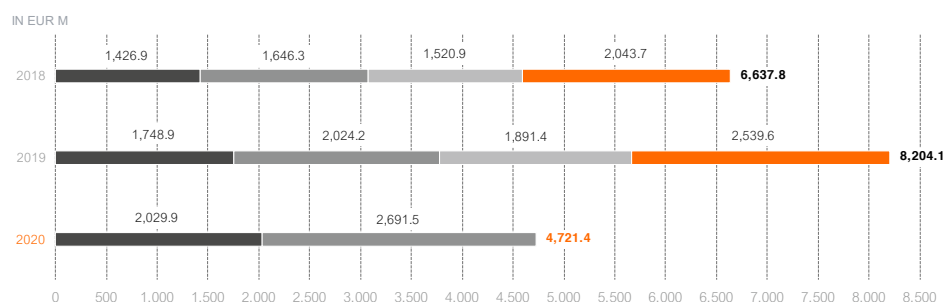
**) As of Dec 31, 2019

Development of GMV and Revenue in Q2 2020

In Q2 2020, GMV increased by EUR 667.2m compared to the prior-year period to EUR 2,691.5m. This corresponds to year-on-year GMV growth of 33.0%. The major driver of the GMV growth in Q2 2020 is the strong Partner Program performance, which clearly reflects the success of our platform transition efforts. Throughout the whole quarter, the Partner Program continued its growth trajectory. Zalando saw its partner program grow strongly as brands and retailers increased their online activities and connected more stock to the Zalando platform, in order to reach their customers across Europe. Between April and June, around 180 new partners joined the partner program. Along with that, Zalando saw an exceptionally strong new customer growth with many first-time fashion online shoppers. In the second quarter, more than three million new customers placed their first order with Zalando. As of June 30, 2020, the group had 34.1 million active customers compared to 28.3 million active customers as of June 30, 2019. This corresponds to an increase of 20.4% also showing the accelerated shift in consumer demand towards online

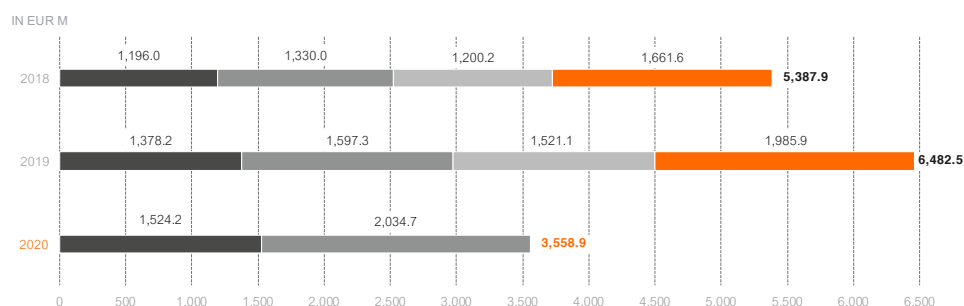
shopping. The strong growth of GMV was also supported by the temporary effect of the backlog in demand from the first quarter shifting into the second quarter. The growing active customer number is accompanied by changes in customer shopping behavior. The customer mix with a high share of new customers and changing category mix with a higher share of need-based and a lower share of occasion-based categories resulted in a favorable return rate development in Q2.

GMV by Quarter (2018 – 2020)



Revenue increased by EUR 437.4m from EUR 1,597.3m to EUR 2,034.7m compared to the prior-year period. This corresponds to year-on-year revenue growth of 27.4%. The increase in GMV was higher than the increase in revenue. This is the result of the strong growth of the Partner Program, as this is fully reflected in the GMV metric while revenue only includes the commission income and service fees from partners.

Revenue by Quarter (2018 – 2020)



Development of EBIT in Q2 2020

The group achieved a strong profitability level in the second quarter of 2020, recording EBIT of EUR 198.4m (prior year: EUR 92.0m) and a corresponding EBIT margin of 9.8% (prior year: 5.8%).

In Q2 2020, cost of sales rose from EUR 866.9m to EUR 1,131.4m, leading to a gross margin decline of 1.3 percentage points compared to the prior-year period. The gross margin development is mainly driven by country and product mix effects as well as a larger share of sales via Offprice. The exceptional inventory write-down that Zalando recognized during the first quarter of the year (EUR 40.2m) was partly reversed in Q2 2020 (EUR 11.3m).

The fulfillment costs in proportion to revenue decreased by 1.9 percentage points in the second quarter of 2020 compared to the prior-year period. The decrease in the fulfillment cost ratio is attributable to lower logistic costs, driven by higher utilization rates and overall efficiency gains. Furthermore, lower average return volumes due to a favorable return rate development led to proportionally lower transportation and handling costs.

The marketing cost ratio decreased by 3.0 percentage points to 5.2% compared to the prior-year period resulting primarily from temporary economies that were introduced in response to the coronavirus crisis.

Compared to the prior-year period, administrative expenses increased by EUR 11.2m from EUR 70.3m to EUR 81.5m in Q2 2020, implying a decrease of 0.4 percentage points in proportion to revenue. The decrease in the administrative cost ratio is driven by the continued focus on overhead cost efficiency.

Development of GMV and revenue in the first six months

The development in the first six months of 2020 can be summarized as follows: GMV and revenue increased by 25.1% and 19.6% respectively, reflecting both the sharp decline in customer demand during the first quarter of the year after the start of the coronavirus pandemic, and exceptionally strong growth in the second quarter on the back of the strong performance of the Partner Program and outstanding growth in new customers.

Development of EBIT in the first six months

EBIT margin in proportion to revenue decreased by 0.1 percentage points from 2.5% in the first half of 2019 to 2.4% in the first half of 2020. The gross margin decreased by 2.5 percentage points to 40.5%. The main factors here were changes in country and product mix, a larger share of sales via Offprice as well as an exceptional inventory write-down of EUR 40.2m; the latter was a result of the revision of sales expectations in Q1 2020; this was partly reversed in Q2 2020 (EUR 11.3m). In proportion to revenue, both fulfillment and marketing costs decreased. This development almost offset the decrease in gross margin. Fulfillment costs in proportion to revenue improved (down 0.6 percentage points), the main driver being higher warehousing costs during Q1 2020 due to lower utilization which were offset by overall efficiency gains and economies of scale through higher utilization as well as lower average return volumes in the second quarter. The marketing cost ratio decreased by 1.2 percentage points to 6.4% in the first half of 2020, resulting primarily from reduced investments as part of the economies introduced in response to the coronavirus crisis, partially offset by an elevated spend in Q1 2020.

Development of adjusted EBIT in Q2 2020 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 2020, Zalando generated an adjusted EBIT of EUR 211.9m (prior year: EUR 101.7m), which translates into an adjusted EBIT margin of 10.4% (prior year: 6.4%).

The development of adjusted EBIT and the adjusted EBIT margin stems from the aforementioned drivers of unadjusted EBIT.

EBIT includes the following expenses from equity-settled share-based payments. More information can be found in the notes to the annual financial statements 2019 (section 3.5.7 (20.)).

Share-Based Compensation Expenses per Functional Area

IN EUR M	Apr 1 – Jun 30, 2020	Apr 1 – Jun 30, 2019	Change	Jan 1 – Jun 30, 2020	Jan 1 – Jun 30, 2019	Change
Expenses for equity-settled share-based payments	13.5	9.7	3.7	27.9	21.5	6.4
Cost of sales	0.9	0.7	0.2	1.8	1.5	0.4
Selling and distribution costs	2.6	1.8	0.8	5.4	3.8	1.5
thereof marketing costs	0.3	0.4	-0.1	1.0	0.9	0.1
thereof fulfillment costs	2.3	1.4	0.9	4.3	2.9	1.4
Administrative expenses	10.0	7.3	2.7	20.8	16.2	4.5

In the first six months of 2020, EBIT contained no restructuring costs or non-operating one-time effects. In the first six months of 2019 EBIT included restructuring costs of EUR 13.1m incurred in connection with the reorganization of the private label business in Q1 2019 (thereof EUR 10.3m in cost of sales, EUR 2.4m in administrative expenses, and EUR 0.4m in marketing costs).

1.2.3 Results by Segment

The condensed segment results for the second quarter of 2020 highlight in particular the outstanding performance of the Offprice segment and the reacceleration of growth in the Fashion Store segment.

Segment development for the second quarter

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

Segment Results of the Group Q2 2019

IN EUR M	Fashion Store	Offprice	All Other Segments	Total	Reconciliation	Total Group
Revenue	1,478.1	155.7	45.2	1,679.0	-81.7	1,597.3
thereof intersegment revenue	67.7	0.0	14.0	81.7	-81.7	0.0
Earnings before interest and taxes (EBIT)	95.3	5.9	-9.4	91.9	0.1	92.0
Adjusted EBIT	103.6	6.9	-8.9	101.6	0.1	101.7

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

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

Fashion Store by Region Q2 2019

IN EUR M	DACH	Rest of Europe	Fashion Store
Revenue	732.0	746.1	1,478.1
thereof intersegment revenue	34.5	33.2	67.7
Earnings before interest and taxes (EBIT)	63.4	32.0	95.3
Adjusted EBIT	67.5	36.1	103.6

In Q2 2020, revenue in the Fashion Store segment grew by 26.5%, showing a strong reacceleration of growth during Q2 2020 compared to Q1 2020. The revenue increase in the second quarter was supported by outstanding new customer acquisition. This was the combined result of the successful execution of the platform transition into a strongly growing partner program that offers customers an even more attractive assortment, together with the accelerated trend towards online shopping. Profitability was strong in the Fashion Store segment, with an EBIT margin of 10.0% in Q2 2020, that is an increase of 3.5 percentage points compared to the prior-year period. This was primarily driven by a higher cost of sales ratio due to country and product mix effects. This, in turn, was offset by a lower fulfillment cost ratio as a result of higher utilization of warehouses and efficiency gains coupled with lower absolute marketing investments as part of the coronavirus crisis economies.

The revenue increase of 62.0% in Q2 2020 in the Offprice segment is mainly due to Zalando Lounge's outstanding performance. Zalando Lounge saw record levels of traffic and revenue growth in the past quarter. With its event and campaign-driven shopping experience it aims to satisfy customer expectations in the best possible way. At the same time, the Outlet stores, which were hit by the mandatory store closures as a result of the government-imposed coronavirus confinement measures, started to recover after the stores reopened during Q2 2020. The Offprice segment recorded EBIT of EUR 14.4m with the EBIT margin increasing from 3.8% in the prior-year period to 5.7% in Q2 2020. The increase was mainly caused by marketing savings and a slightly improved fulfillment cost ratio as a result of reduced warehouse costs, partly offset by a decreased gross profit margin driven by high discount levels.

The coronavirus crisis impacted the growth performance of all other segments in Q2 2020. Revenue growth declined by 11.3% compared to the prior-year period, while the EBIT margin improved by 15.5 percentage points to -5.4%, as a result of efficiency improvement and cost-cutting measures.

Segment Development for the First Six Months

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

Segment Results of the Group HY 2019

IN EUR M	Fashion Store	Offprice	All Other Segments	Total	Reconciliation	Total Group
Revenue	2,746.6	292.5	147.8	3,186.9	-211.4	2,975.5
thereof intersegment revenue	124.2	0.0	87.2	211.4	-211.4	0.0
Earnings before interest and taxes (EBIT)	94.4	8.6	-30.0	73.1	0.6	73.6
Adjusted EBIT	112.0	10.7	-15.1	107.6	0.6	108.1

In the Fashion Store segment, revenue rose by 18.8% in the first six months of 2020 compared to the corresponding prior-year period. This development reflects a combination of the steep decline in customer demand during the first quarter of the year at the start of the coronavirus pandemic and exceptionally strong growth in the second quarter. The EBIT margin in the Fashion Store segment decreased by 1.1 percentage points from 3.4% in the first six months of 2019 to 2.3% in the first six months of 2020. Key drivers were a higher cost of sales ratio due to exceptional inventory write-offs and country and product mix effects, which could not be offset by lower marketing investments and an overall slightly lower fulfillment cost ratio in Q2.

In the Offprice segment, revenue grew by 49.4% in the first six months of 2020 compared to the corresponding prior-year period. The Offprice segment recorded an EBIT margin of 4.7% – an increase of 1.8 percentage points compared to the prior-year period. The strong performance is largely attributable to the outstanding course of business of Zalando Lounge during the first six months, while the reduced sales volume of our Zalando Outlets had a smaller impact.

In all other segments total revenue declined by 47.6% during the first half of the year compared to the prior-year period, the main reason being the reorganization of the private label business in Q1 2019. The private label business was integrated into the Fashion Store segment in Q2 2019. Hence, private label business revenue shifted from all other segments to the Fashion Store segment. As private label business revenue solely comprises intersegment transactions with the Fashion Store segment, the shift did not in fact impact Fashion Store revenue. In addition, the coronavirus pandemic slowed growth in all other segments. The EBIT margin in all other segments increased by 7.6 percentage points to -12.6% in the first six months of 2020 in comparison to the first six months of 2019, mainly driven by the fact that no restructuring costs were incurred in 2020.

Adjusted EBIT

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

Share-Based Compensation Expenses per Segment

IN EUR M	Apr 1 – Jun 30, 2020	Apr 1 – Jun 30, 2019	Change	Jan 1 – Jun 30, 2020	Jan 1 – Jun 30, 2019	Change
Expenses for equity-settled share-based payment	13.5	9.7	3.7	27.9	21.5	6.4
Fashion Store	11.1	8.3	2.8	23.2	17.6	5.6
Offprice	1.5	0.9	0.6	3.0	2.1	0.9
All other segments	0.8	0.5	0.4	1.8	1.8	0.0

The development in adjusted EBIT resulted almost exclusively from the drivers described for unadjusted EBIT above as no restructuring or other one-time effects were recorded during the first half of 2020. In the prior-year period, EBIT included the above-mentioned restructuring costs incurred in connection with the reorganization of the private label business in Q1 2019 with EUR 13.1m in all other segments. From Q2 2019 onwards, the private label business has been integrated into the Fashion Store segment. Before, it was part of all other segments.

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, 2020	Apr 1 – Jun 30, 2019	Jan 1 – Jun 30, 2020	Jan 1 – Jun 30, 2019
Cash flow from operating activities	385.8	143.2	125.0	84.6
Cash flow from investing activities	-43.3	-56.8	-85.1	-81.1
Cash flow from financing activities	2.2	-3.5	361.8	-46.1
Change in cash and cash equivalents	344.7	82.9	401.8	-42.6
Exchange-rate related and other changes in cash and cash equivalents	-1.3	1.6	-0.8	2.0
Cash and cash equivalents at the beginning of the period	1,034.0	869.8	976.5	995.0
Cash and cash equivalents as of Jun 30	1,377.5	954.4	1,377.5	954.4

In the first half of 2020, Zalando generated a positive cash flow from operating activities of EUR 125.0m (prior-year period: EUR 84.6m). The increase compared to the prior-year period of EUR 40.3m was driven by the positive net income of the second quarter as well as the negative income of the first quarter and the overall development in working capital. Predominantly, it related to a decrease in inventories which is mainly due to the increased business volume in the second quarter and comparatively lower stock inbounds and a decrease in trade payables as Zalando offered earlier payments to support its partners.

The cash flow from investing activities is mainly impacted by capital expenditures (capex), the sum of the payments for investments in property, plant and equipment and intangible assets excluding payments for acquisitions. Capex amounted to EUR 91.1m (prior-year period: EUR 97.4m) and mainly included investments in the logistics infrastructure, relating primarily to the fulfillment centers in Verona (Nogarole Rocca), Olsztynek, and Lodz (Gluchow) as well as investments in internally developed software. In Q1 2019, cash flow from investing activities also contained payments received for the share in the proceeds from the sale of developed land owned by third parties of EUR 21.8m. This resulted from the participation in the increase in sales price of the Zalando Campus property. The amount had been recognized in the income statement over several years beginning in 2015. In Q1 2020, an amount of EUR 6.0m was received for the sale of a disposal group.

In Q1 2020, Zalando made use of its revolving credit facility which resulted in cash inflows from financing activities of EUR 375.0m. Furthermore, cash flow from financing activities includes cash outflows for the repayment of the principal portion of lease liabilities of EUR 32.8m during the first six months of 2020 (prior year: EUR 22.8m). In the prior-year period, cash flow from financing activities also included payments for the repurchase of treasury shares of EUR 38.8m. In the first six months of 2020, no treasury shares were repurchased.

Aggregate cash and cash equivalents increased by EUR 401.8m in the first six months of 2020, resulting in Zalando carrying cash and cash equivalents of EUR 1,377.5m as of June 30, 2020.

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, 2020		Dec 31, 2019		Change	
Non-current assets	1,451.0	31.0%	1,455.1	33.6%	-4.1	-0.3%
Current assets	3,229.5	69.0%	2,878.0	66.4%	351.5	12.2%
Total assets	4,680.5	100.0%	4,333.1	100.0%	347.4	8.0%

Equity and Liabilities

IN EUR M	Jun 30, 2020		Dec 31, 2019		Change	
Equity	1,775.2	37.9%	1,683.8	38.9%	91.5	5.4%
Non-current liabilities	920.5	19.7%	542.6	12.5%	377.9	69.6%
Current liabilities	1,984.7	42.4%	2,106.7	48.6%	-122.0	-5.8%
Total equity and liabilities	4,680.5	100.0%	4,333.1	100.0%	347.4	8.0%

Compared to December 31, 2019, Zalando's total assets increased by EUR 347.4m to EUR 4,680.5m. The statement of financial position is dominated by non-current assets, working capital, cash and cash equivalents as well as equity.

In the first six months of 2020, additions to property, plant and equipment totaled EUR 28.0m (prior year: EUR 50.3m), mainly relating to the fulfillment centers in Verona (Nogarole Rocca), Olsztynek, and Lodz (Gluchow).

Right-of-use assets have a carrying amount of EUR 509.8m as of June 30, 2020. These mainly relate to lease contracts for fulfillment centers and office buildings.

Inventories mainly comprise goods required for Zalando's wholesale business. The decrease in inventories from EUR 1,098.3m to EUR 1,017.7m predominantly reflects the increased business volume combined with comparatively lower stock inbounds in the reporting period.

In the first half of 2020, equity increased from EUR 1,683.8m to EUR 1,775.2m. The EUR 91.5m increase primarily stems from the positive net income of the period, from share-based compensation and from exercise price payments received for employee stock option exercises. In the reporting period, the equity ratio decreased from 38.9% at the beginning of the year to 37.9% as of June 30, 2020, due to higher total assets mainly attributable to the drawing of the credit lines from the revolving credit facility (RCF).

Non-current borrowings increased by EUR 375.0m when the RCF credit lines were drawn in Q1 2020.

Lease liabilities have a carrying amount of EUR 529.6m as of June 30, 2020, thereof EUR 471.1m non-current, and EUR 58.5m current. They represent the discounted financial obligations resulting from lease contracts as per IFRS 16.

Current liabilities decreased by EUR 122.0m in the reporting period. The decrease is mainly attributable to trade payables, which were down by EUR 183.4m, due to the early payment strategy implemented to support partners. Under reverse factoring agreements, suppliers' claims against Zalando totaling EUR 409.2m as of June 30, 2020 were transferred to various factoring providers (December 31, 2019: EUR 394.5m). 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 -147.7m as of December 31, 2019 to EUR -31.2m as of June 30, 2020. The increase mainly results from the decrease in trade payables and similar liabilities, partly offset by the decrease in inventories.

Overall Assessment

The Management Board views the business development in the first two quarters of 2020 as positive. Despite the challenging trading environment in the first quarter and the severe impacts experienced on demand, the business recovered in the second quarter. The Zalando group was able to significantly increase its GMV and revenue, thanks to the company's focused execution of the platform strategy, a decisive crisis response and an accelerated market transition from offline to online. EBIT margin decreased only slightly, driven by increased investments of gross margin, being partly compensated by marketing savings and efficiency gains. Overall, Zalando is delivering on its target growth and margin corridor for the platform transition period and can look back on a challenging but successful first half of 2020.

1.2.6 Employees

The headcount decreased by 19 to 13,744 employees as of June 30, 2020, compared to 13,763 employees as of December 31, 2019.

1.3 Subsequent Events

On July 30, 2020, Zalando SE placed two tranches of unsubordinated, unsecured convertible bonds with an aggregate principal amount of EUR 1,000.0m and each with a principal amount of EUR 500.0m. Tranche A was issued at a price of 100.88%, with a coupon of 0.050% per annum and a maturity of five years. Tranche B was priced at 100.00%, with a coupon of 0.625% per annum and a maturity of seven years. The bonds are divided into units of EUR 100,000.

The bonds are convertible into new and/or existing no-par value ordinary bearer shares of the company. The conversion price is set at EUR 87.6375 (Tranche A) and EUR 92.2500 (Tranche B) above the reference share price, which represents a conversion premium of 42.5% and 50.0%. Zalando may redeem the Bonds outstanding at an earlier date than maturity under certain conditions.

No other significant event occurred subsequent to the reporting date which could materially affect the presentation of the financial performance and position of the group.

1.4 Risk and Opportunity Report

Taking into account the respective probability of occurrence and the potential impact of the risks described in the 2019 annual report, we identified no risks that might threaten ZALANDO SE as a going concern.

The COVID-19 pandemic had a severe temporary impact on Zalando in the reporting period, as demand declined sharply in March. The extent to which the COVID-19 pandemic will continue to be relevant for the rest of the year or even for the following year depends decisively on whether a second infection wave occurs and/or how quickly the economic recovery takes place. The foreseeable loss of purchasing power due to the economic downturn might result in a decline in general consumer demand and could ultimately lead to potential insolvencies on the part of our customers, partners and brands. In addition to that, further supply shortages or delays due to lockdown-related production losses and supply chain disruptions could occur going forward. Therefore, the COVID-19 risk continues to be closely monitored by the risk early warning system.

The corresponding risk of "Supply chain disruption due to events in supplier countries" which was identified in January of this year and reported in the annual financial statements is therefore still regarded as material. The top risk "Changing regulatory requirements" is no longer regarded as a material risk for Zalando, as in particular the potential impact of Brexit was reduced by further mitigation measures resulting in a lower sourcing budget at risk.

1.5 Outlook

1.5.1 Future Macroeconomic and Industry-Specific Situation

Given the high dependency on the future development of the COVID-19 pandemic, the economic outlook is exceptionally uncertain. As described in the risk and opportunity report update, the future economic recovery will depend largely on the occurrence of a second infection wave.

Given the unusual level of uncertainty, OECD's economic outlook presents two equally likely scenarios for future economic development – one scenario where a second outbreak occurs towards the end of this year and an alternative scenario where the second outbreak is avoided. In the "double-hit" scenario, Europe's GDP is expected to fall by 11.5% this year and remain well below pre-crisis levels at the end of 2021 (GDP increase of 3.5%); in the "single-hit" scenario, Europe GDP is expected to fall by 9.1% this year, but to partly recover by the end of 2021 (GDP increase of 6.5%).⁶

The table below shows the percentage changes of private consumption for the period of 2018 until 2021 incorporating single-hit and double-hit scenarios.

Private Consumption Growth per country

	Historical data		Single-hit scenario		Double-hit scenario	
	2018	2019	2020	2021	2020	2021
Europe Area	1.4	1.3	-9.9	8.6	-12.7	5.5
Germany	1.2	1.7	-6.0	7.6	-8.1	4.1
Switzerland	1.0	1.3	-6.8	6.5	-8.9	3.0
Spain	1.8	1.1	-13.4	9.7	-17.3	7.1
France	0.8	1.5	-12.6	9.5	-16.2	7.1
Italy	0.9	0.4	-10.5	9.0	-8.4	1.9

Source: OECD Economic Outlook – June 2020

According to the OECD forecast, private consumption is expected to decline sharply this year before slowly recovering in 2021. Brick-and-mortar retailers are particularly affected by this development, as consumers are consciously opting for e-commerce solutions to reduce the risk of infection. Due to this shift, and our wide brand awareness among European consumers, large customer base, strong supplier relationships, and infrastructure footprint, as well as our fashion and mobile technology capacity, we are convinced that we are well positioned to grow further under these circumstances.

⁶ OECD Economic Outlook – June 2020

1.5.2 Guidance

After exceptionally strong and profitable growth in the second quarter Zalando raised its latest full year guidance provided in the Quarterly Statement for Q1 2020 published on May 7 (Q1 2020 guidance was: GMV and revenue growth: 10% to 20%, adjusted EBIT of EUR 100.0m to EUR 200.0m, EBIT of EUR 50.0m to EUR 150.0m, capex of EUR 230.0m to EUR 280.0m).

The company now expects to grow GMV by 20-25% and revenue by 15-20% in 2020, and it expects an adjusted EBIT of between EUR 250.0m and EUR 300.0m (EBIT of EUR 200.0m to EUR 250.0m).

As part of its platform strategy, the company will continue to invest in its European logistics network and technology infrastructure and sticks to its capex guidance of planned investments of EUR 230.0m to EUR 280.0m this year. Furthermore, the group expects a continued negative net working capital for the fiscal year 2020.

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 2020, the economic condition of the group remains good.

Berlin, August 6, 2020

The Management Board

Robert Gentz David Schneider Rubin Ritter James M. Freeman, II David Schröder

Interim Consolidated Financial Statements

02

2.1 Consolidated Statement of Comprehensive Income

Consolidated Statement of Comprehensive Income

IN EUR M	Notes	Apr 1 – Jun 30, 2020	Apr 1 – Jun 30, 2019	Jan 1 – Jun 30, 2020	Jan 1 – Jun 30, 2019
Revenue	(1.)	2,034.7	1,597.3	3,558.9	2,975.5
Cost of sales	(2.)	-1,131.4	-866.9	-2,117.6	-1,695.7
Gross profit		903.3	730.4	1,441.3	1,279.8
Fulfillment costs		-517.2	-436.8	-973.3	-832.6
Marketing costs		-105.3	-130.4	-228.8	-227.5
Administrative expenses		-81.5	-70.3	-165.7	-148.1
Other operating income		1.5	3.8	15.6	9.0
Other operating expenses		-2.3	-4.6	-3.7	-7.1
Earnings before interest and taxes (EBIT)		198.4	92.0	85.3	73.6
Interest and similar income		1.9	3.0	3.7	5.4
Interest and similar expenses		-7.3	-6.8	-17.0	-13.0
Result of investments accounted for using the equity method		0.0	-2.7	0.1	-3.4
Other financial result		4.6	0.9	-8.2	2.4
Financial result		-0.7	-5.7	-21.4	-8.5
Earnings before taxes (EBT)		197.7	86.3	64.0	65.1
Income taxes	(3.)	-75.1	-40.8	-27.8	-37.2
Net income for the period		122.6	45.5	36.2	27.9
Thereof net income attributable to the shareholders of ZALANDO SE		122.6	45.5	36.2	27.9
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		6.0%	2.8%	1.0%	0.9%
Basic earnings per share (in EUR)	(4.)	0.49	0.18	0.15	0.11
Diluted earnings per share (in EUR)	(4.)	0.47	0.18	0.14	0.11

Consolidated Statement of Comprehensive Income

IN EUR M	Apr 1 – Jun 30, 2020	Apr 1 – Jun 30, 2019	Jan 1 – Jun 30, 2020	Jan 1 – Jun 30, 2019
Net income for the period	122.6	45.5	36.2	27.9
Items recycled to profit or loss in subsequent periods				
Effective portion of gains / losses from cash flow hedges, net of tax	20.5	5.5	1.4	-7.7
Exchange differences on translation of foreign financial statements	3.4	2.1	5.5	1.6
Other comprehensive income	23.9	7.7	6.9	-6.0
Total comprehensive income	146.5	53.2	43.0	21.9
Thereof total comprehensive income attributable to the shareholders of ZALANDO SE	146.5	53.2	43.0	21.9
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, 2020	Dec 31, 2019
Non-current assets			
Intangible assets		199.6	192.8
Property, plant and equipment		713.3	708.4
Financial assets		12.9	10.1
Lease assets		509.8	525.6
Deferred tax assets		5.8	9.2
Non-financial assets		7.7	7.3
Investments accounted for using the equity method		1.7	1.6
		1,451.0	1,455.1
Current assets			
Inventories	(5.)	1,017.7	1,098.3
Prepayments		0.0	0.1
Trade and other receivables		475.9	462.3
Other financial assets		84.9	42.8
Other non-financial assets		271.1	262.2
Cash and cash equivalents		1,377.5	976.5
		3,227.1	2,842.2
Assets held for sale		2.4	35.9
Total assets		4,680.5	4,333.1

Consolidated Statement of Financial Position – Equity and Liabilities

IN EUR M	Notes	Jun 30, 2020	Dec 31, 2019
Equity			
Issued capital		250.1	248.7
Capital reserves		1,245.8	1,200.5
Other reserves		-6.9	-15.6
Retained earnings		286.4	250.4
Equity of shareholders of ZALANDO SE		1,775.4	1,683.9
Non-controlling interest		-0.2	-0.2
	(6.)	1,775.2	1,683.8
Non-current liabilities			
Provisions		42.1	42.5
Lease liabilities		471.1	481.4
Borrowings	(7.)	376.3	2.7
Other financial liabilities		10.3	4.2
Other non-financial liabilities		5.2	1.1
Deferred tax liabilities		15.5	10.7
		920.5	542.6
Current liabilities			
Provisions		1.3	3.4
Lease liabilities		58.5	68.0
Borrowings		2.8	2.8
Trade payables and similar liabilities	(8.)	1,524.9	1,708.3
Prepayments received	(8.)	62.5	35.0
Income tax liabilities		10.9	7.6
Other financial liabilities		122.8	128.2
Other non-financial liabilities		201.0	143.4
		1,984.7	2,096.7
Liabilities associated with assets held for sale		0.0	10.0
Total equity and liabilities		4,680.5	4,333.1

2.3 Consolidated Statement of Changes in Equity

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	(6.)	1.3	19.8
Transfer/repurchase of treasury shares	(6.)	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 2019

IN EUR M

	Notes	Issued Capital	Capital Reserves
As of Jan 1, 2019		247.9	1,155.6
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	(6.)	1.0	15.5
Transfer/repurchase of treasury shares	(6.)	-1.4	-37.3
Share-based payments		0.0	21.5
As of Jun 30, 2019		247.5	1,155.3

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	

	Other Reserves					Total
	Cash Flow Hedges	Currency Translation	Retained Earnings	Shareholders of ZALANDO SE	Non-Controlling Interest	
	-5.0	0.1	150.7	1,549.2	-0.2	1,549.1
	0.0	0.0	27.9	27.9	0.0	27.9
	-7.7	1.6	0.0	-6.0	0.0	-6.0
	-7.7	1.6	27.9	21.9	0.0	21.8
	0.0	0.0	0.0	16.6	0.0	16.6
	0.0	0.0	0.0	-38.8	0.0	-38.8
	0.0	0.0	0.0	21.5	0.0	21.5
	-12.7	1.8	178.6	1,570.4	-0.2	1,570.2

2.4 Consolidated Statement of Cash Flows

Consolidated Statement of Cash Flows

IN EUR M	Notes	Apr 1 – Jun 30, 2020	Apr 1 – Jun 30, 2019	Jan 1 – Jun 30, 2020	Jan 1 – Jun 30, 2019
1. Net income for the period		122.6	45.5	36.2	27.9
2. + Non-cash expenses from share-based payments		13.5	9.7	27.9	21.5
3. + Depreciation of property, plant and equipment, lease assets and amortization of intangible assets		52.2	51.3	102.8	94.1
4. + Income taxes	(3.)	75.1	40.8	27.8	37.2
5. - Income taxes paid, less refunds		-10.5	-40.5	-31.9	-53.8
6. +/- Increase/decrease in provisions		-1.1	0.2	-2.7	0.4
7. -/+ Other non-cash income/expenses		0.6	6.2	2.5	6.5
8. +/- Decrease/increase in inventories		294.6	122.5	80.6	-43.4
9. +/- Decrease/increase in trade and other receivables		-115.3	-25.3	-13.6	-6.8
10. +/- Increase/decrease in trade payables and similar liabilities	(8.)	-104.4	-41.8	-175.3	33.1
11. -/+ Increase/decrease in other assets/liabilities		58.5	-25.4	70.7	-32.1
12. = Cash flow from operating activities	(9.)	385.8	143.2	125.0	84.6
13. + Proceeds from disposal of non-current assets		0.0	0.0	6.0	22.5
14. - Cash paid for investments in property, plant and equipment		-25.1	-38.3	-54.1	-66.9
15. - Cash paid for investments in intangible assets		-18.2	-16.8	-37.0	-30.5
16. - Cash paid for acquisition of shares in associated companies and acquisition of companies and prepayments for such acquisitions		0.0	-1.7	0.0	-1.7
17. +/- Cash received from/paid for investments in term deposits		0.0	0.0	0.0	-5.0
18. +/- Change in restricted cash		0.0	0.0	0.0	0.4
19. = Cash flow from investing activities	(9.)	-43.3	-56.8	-85.1	-81.1

Consolidated Statement of Cash Flows

IN EUR M	Notes	Apr 1 – Jun 30, 2020	Apr 1 – Jun 30, 2019	Jan 1 – Jun 30, 2020	Jan 1 – Jun 30, 2019
20. +	Cash received from capital increases by the shareholders less transaction costs	20.5	9.9	21.1	16.6
21. -	Repurchase of treasury shares	0.0	0.0	0.0	-38.8
22. +/-	Cash received from loans/ Cash repayments of loans	-0.7	-0.7	373.6	-1.1
23. -	Cash payments for the principal portion of lease liabilities	-17.5	-12.8	-32.8	-22.8
24. =	Cash flow from financing activities	(9.)	-3.5	361.8	-46.1
25. =	Net change in cash and cash equivalents from cash-relevant transactions	344.7	82.9	401.8	-42.6
26. +/-	Change in cash and cash equivalents due to exchange rate movements	-1.3	1.6	-0.8	2.0
27. +	Cash and cash equivalents at the beginning of the period	1,034.0	869.8	976.5	995.0
28. =	Cash and cash equivalents as of June 30	1,377.5	954.4	1,377.5	954.4

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

Cash-effective Interest

IN EUR M	Apr 1 – Jun 30, 2020	Apr 1 – Jun 30, 2019	Jan 1 – Jun 30, 2020	Jan 1 – Jun 30, 2019
Interest paid	-6.4	-4.7	-13.6	-10.3
Interest received	1.8	1.2	3.1	1.8
Total	-4.6	-3.5	-10.6	-8.5

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, 2020	Apr 1 – Jun 30, 2019	Jan 1 – Jun 30, 2020	Jan 1 – Jun 30, 2019
Cash flow from operating activities	385.8	143.2	125.0	84.6
Payments received from the sale of non-current assets	0.0	0.0	6.0	22.5
Cash paid for investments in property, plant and equipment	-25.1	-38.3	-54.1	-66.9
Cash paid for investments in intangible assets	-18.2	-16.8	-37.0	-30.5
Cash paid for acquisitions of shares in associated companies and acquisition of companies and prepayments for such acquisitions	0.0	-1.7	0.0	-1.7
Free cash flow	342.5	86.5	39.9	8.1

2.5 Condensed Notes to the Consolidated Financial Statements

2.5.1 Corporate Information

ZALANDO SE is a publicly listed stock corporation with registered offices in Berlin, Germany. ZALANDO SE, Berlin, is the parent of the Zalando group (hereinafter referred to as "Zalando" or the "group").

The interim condensed and unaudited consolidated financial statements as of June 30, 2020 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, 2019.

Accounting and Measurement Principles

The accounting policies and recognition and measurement methods applied in the consolidated financial statements as of December 31, 2019 have been applied without change.

As explained in the 2019 annual report, the first-time application of amendments to IFRS accounting standards or interpretations in fiscal year 2020 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 decreased from 48 as of December 31, 2019 to 47 as of June 30, 2020.

2.5.2 Selected Notes to the Consolidated Statement of Comprehensive Income

(1.) Revenue

Revenue

IN EUR M	Apr 1 – Jun 30, 2020	Apr 1 – Jun 30, 2019	Jan 1 – Jun 30, 2020	Jan 1 – Jun 30, 2019
Revenue from the sale of merchandise	1,884.3	1,531.8	3,317.8	2,854.5
Revenue from other services	150.4	65.5	241.1	121.0
Total	2,034.7	1,597.3	3,558.9	2,975.5

In Q2 2020, Zalando increased its revenue by EUR 437.4m from EUR 1,597.3m to EUR 2,034.7m compared to the prior-year period. This corresponds to year-on-year revenue growth of 27.4%. The revenue increase in the second quarter was supported by outstanding new customer acquisition. This was the combined result of the successful execution of the platform transition into a strongly growing partner program that offers customers an even more attractive assortment, together with the accelerated trend towards online shopping. As of June 30, 2020, the group had 34.1 million active customers compared to 28.3 million active customers as of June 30, 2019. This is an increase of 20.4%.

In the first six months of 2020, revenue rose by 19.6% to EUR 3,558.9m (prior year: EUR 2,975.5m) compared to the corresponding prior-year period. This development was the result of exceptionally strong growth in the second quarter following the sharp decline in customer demand during the first quarter of the year at the start of the corona pandemic.

(2.) Cost of Sales

Cost of Sales

IN EUR M	Apr 1 – Jun 30, 2020	Apr 1 – Jun 30, 2019	Jan 1 – Jun 30, 2020	Jan 1 – Jun 30, 2019
Non-personnel costs	1,097.6	837.3	2,047.8	1,623.0
Personnel costs	33.8	29.7	69.8	72.7
Total	1,131.4	866.9	2,117.6	1,695.7

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 1,695.7m to EUR 2,117.6m.

Cost of materials in the group totaled EUR 1,794.2m (prior year: EUR 1,489.4m) and write-downs on inventories amounted to EUR 149.6m (prior year: EUR 84.4m).

Zalando generated a gross profit of EUR 1,441.3m in the first half of 2020 (prior year EUR 1,279.8m) with the gross margin decreasing by 2.5 percentage points to 40.5%. The main factors influencing this were changes in country and product mix as well as an exceptional inventory write-down of EUR 40.2m as a result of the revision of sales expectations in Q1 which was partly reversed in Q2 (EUR 11.3m).

(3.) Income Taxes

Income Taxes

IN EUR M	Apr 1 – Jun 30, 2020	Apr 1 – Jun 30, 2019	Jan 1 – Jun 30, 2020	Jan 1 – Jun 30, 2019
Deferred taxes	50.6	2.6	1.8	-2.0
Current taxes	24.5	38.2	26.0	39.2
Total	75.1	40.8	27.8	37.2

Income taxes for the first half of 2020 are driven by the negative taxable income in Q1 2020 and the positive taxable income in Q2 2020, resulting in low current tax expenses and high deferred tax income in Q1 2020 as well as high current and deferred tax expenses in Q2 2020.

(4.) Earnings per Share

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

Basic Earnings per Share (EPS)

	Apr 1 – Jun 30, 2020	Apr 1 – Jun 30, 2019	Jan 1 – Jun 30, 2020	Jan 1 – Jun 30, 2019
Net income for the period attributable to the shareholders of ZALANDO SE (in EUR m)	122.6	45.5	36.2	27.9
Basic weighted average number of shares (in millions)	249.2	247.0	248.9	247.0
Total (in EUR)	0.49	0.18	0.15	0.11

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 2020 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, 2020	Apr 1 – Jun 30, 2019	Jan 1 – Jun 30, 2020	Jan 1 – Jun 30, 2019
Net income for the period attributable to the shareholders of ZALANDO SE (in EUR m)	122.6	45.5	36.2	27.9
Diluted weighted average number of shares (in millions)	259.4	253.8	258.6	255.0
Total (in EUR)	0.47	0.18	0.14	0.11

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 2018, LTI 2019 and EIP 2019 (prior year: options granted within the scope of LTI 2018, LTI 2019, VSOP 2018 and EIP 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 decrease in inventories from EUR 1,098.3m to EUR 1,017.7m predominantly reflects the increased business volume combined with comparatively lower stock inbounds in the reporting period.

(6.) Equity

In the first half of 2020, equity increased from EUR 1,683.8m to EUR 1,775.2m. The EUR 91.5m increase primarily stems from the positive net income of the period, from share-based compensation and from exercise price payments received for employee stock option exercises. In the reporting period, the equity ratio decreased from 38.9% at the beginning of the year to 37.9% as of June 30, 2020, due to higher total assets mainly attributable to the drawing of the credit lines from the revolving credit facility (RCF).

(7.) Non-current Borrowings

Non-current borrowings increased by EUR 375.0m when the RCF credit lines were drawn in Q1 2020.

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

Trade payables and similar liabilities decreased by EUR 183.4m to EUR 1,524.9m due to the early payment strategy that Zalando pursues to support our partners.

Under reverse factoring agreements, suppliers' claims against Zalando totaling EUR 409.2m as of June 30, 2020 were transferred to various factoring providers (December 31, 2019: EUR 394.5m). 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 2020, Zalando generated a positive cash flow from operating activities of EUR 125.0m (prior-year period: EUR 84.6m). The increase compared to the prior-year period of EUR 40.3m was driven by the positive net income of the second quarter as well as the negative income of the first quarter and the overall development in working capital. This related predominantly to a decrease in inventories caused by the increased business volume in the second quarter and comparatively lower stock inbound as well as a decrease in trade payables as Zalando offered earlier payments to support its partners.

The cash flow from investing activities is mainly impacted by capital expenditures (capex), the sum of the payments for investments in property, plant and equipment and intangible assets excluding payments for acquisitions. Capex amounted to EUR 91.1m (prior-year period: EUR 97.4m) and mainly included investments in the logistics infrastructure, relating primarily to the fulfillment centers in Verona (Nogarole Rocca), Olsztynek, and Lodz (Gluchow) as well as investments in internally developed software. In Q1 2019, cash flow from investing activities also contained payments received for the share in the proceeds from the sale of developed land owned by third parties of EUR 21.8m. This resulted from the participation in the increase in sales price of the Zalando Campus property. The amount had been recognized in the income statement over several years beginning in 2015. In Q1 2020, EUR 6.0m was received for the sale of a disposal group.

In Q1 2020, Zalando made use of its revolving credit facility which resulted in cash inflows from financing activities of EUR 375.0m. Furthermore, cash flow from financing activities includes cash outflows for the repayment of the principal portion of lease liabilities of EUR 32.8m during the first six months of 2020 (prior year: EUR 22.8m). In the prior-year period, cash flow from financing activities also included payments for the repurchase of treasury shares of EUR 38.8m. In the first six months of 2020, no treasury shares were repurchased.

Aggregate cash and cash equivalents increased by EUR 401.8m in the first six months of 2020, resulting in Zalando carrying cash and cash equivalents of EUR 1,377.5m as of June 30, 2020.

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 purchase of goods and services gave rise to liabilities of EUR 126.8m as of the reporting date (as of June 30, 2019: EUR 116.1m). Of this amount, EUR 123.1m (as of June 30, 2019: EUR 114.0m) 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 3.7m (as of June 30, 2019: EUR 2.1m). Furthermore, trade receivables from related parties amount to EUR 0.2m (as of June 30, 2019: EUR 0.2m). Furthermore, Zalando provided services to related parties totaling EUR 10.4m (prior year period: EUR 6.2m).

Merchandise of EUR 117.5m was ordered from related parties in the reporting period. The order volume totaled EUR 114.8m in the comparative period of the prior year. In addition, goods totaling EUR 1.3m were sold to related parties (prior year period: EUR 1.4m). The cost of services received from related parties came to EUR 0.2m in the reporting period (prior year period: EUR 0.3m).

(11.) Segment Reporting

The condensed segment results for the second quarter of 2020 in particular highlight the outstanding performance of the Offprice segment and the reacceleration of growth in the Fashion Store segment.

Segment Development for the Quarter

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

Segment Results of the Group Q2 2019

IN EUR M	Fashion Store	Offprice	All Other Segments	Total	Reconciliation	Total Group
Revenue	1,478.1	155.7	45.2	1,679.0	-81.7	1,597.3
thereof intersegment revenue	67.7	0.0	14.0	81.7	-81.7	0.0
Earnings before interest and taxes (EBIT)	95.3	5.9	-9.4	91.9	0.1	92.0

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 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

Fashion Store Results by Region Q2 2019

IN EUR M	DACH	Rest of Europe	Fashion Store
Revenue	732.0	746.1	1,478.1
thereof intersegment revenue	34.5	33.2	67.7
Earnings before interest and taxes (EBIT)	63.4	32.0	95.3

In Q2 2020, revenue in the Fashion Store segment grew by 26.5%, showing a strong reacceleration of growth during Q2 2020 compared to Q1 2020. The revenue increase in the second quarter was supported by outstanding new customer acquisition. This was the combined result of the successful execution of the platform transition to a strongly growing partner program that offers customers an even more attractive assortment, together with the accelerated trend towards online shopping. Profitability was strong in the Fashion Store segment, with an EBIT margin of 10.0% in Q2 2020, that is an increase of 3.5 percentage points compared to the prior-year period. This was primarily driven by a higher cost of sales ratio due to country and product mix effects, which was offset by a lower fulfillment cost ratio as a result of higher utilization of warehouses and efficiency gains as well as lower absolute marketing investments as part of the coronavirus crisis economies.

The revenue increase of 62.0% in Q2 2020 in the Offprice segment is mainly due to Zalando Lounge's outstanding performance. Zalando Lounge saw record levels of traffic and revenue growth in the past quarter. With its event and campaign-driven shopping experience it aims at meeting customer expectations particularly well. At the same time, the Outlet stores, which suffered from

mandatory store closures as a result of the government-imposed coronavirus confinement measures, started to recover after the stores reopened during Q2 2020. The Offprice segment recorded EBIT of EUR 14.4m with the EBIT margin increasing from 3.8% in the prior-year period to 5.7% in Q2 2020. The increase was mainly caused by marketing savings and a slightly improved fulfillment cost ratio as a result of reduced warehouse costs, partly offset by a decreased gross profit margin driven by high discount levels.

The coronavirus crisis impacted the growth performance of all other segments in Q2 2020. Revenue growth declined down by 11.3% compared to the prior-year period while the EBIT margin improved by 15.5 percentage points to -5.4%, as a result of efficiency improvement and cost-cutting measures.

Segment Development for the First Six Months

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

Segment Results of the Group HY 2019

IN EUR M	Fashion Store	Offprice	All Other Segments	Total	Reconciliation	Total Group
Revenue	2,746.6	292.5	147.8	3,186.9	-211.4	2,975.5
thereof intersegment revenue	124.2	0.0	87.2	211.4	-211.4	0.0
Earnings before interest and taxes (EBIT)	94.4	8.6	-30.0	73.1	0.6	73.6

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

Fashion Store Results by Region HY 2019

IN EUR M	DACH	Rest of Europe	Fashion Store
Revenue	1,353.7	1,392.9	2,746.6
thereof intersegment revenue	62.8	61.4	124.2
Earnings before interest and taxes (EBIT)	85.0	9.4	94.4

In the Fashion Store segment, revenue rose by 18.8% in the first six months of 2020 compared to the corresponding prior-year period. This development reflects a combination of the sharp decline in customer demand during the first quarter of the year at the start of the corona pandemic and exceptionally strong growth in the second quarter. The EBIT margin in the Fashion Store segment decreased by 1.1 percentage points from 3.4% in the first six months of 2019 to 2.3% in the first six months of 2020. Key drivers were a higher cost of sales ratio due to exceptional inventory write-offs and country and product mix effects, which could not be offset by lower marketing investments and an overall slightly lower fulfillment cost ratio in Q2.

In the Offprice segment, revenue grew by 49.4% in the first six months of 2020 compared to the corresponding prior-year period. The Offprice segment recorded an EBIT margin of 4.7% – an increase of 1.8 percentage points compared to the prior-year period. The strong performance is largely attributable to the outstanding course of business of Zalando Lounge during the first six months, while the reduced sales volume of our Zalando Outlets had a smaller impact.

In all other segments total revenue declined by 47.6% during the first half of the year compared to the prior-year period, the main reason being the reorganization of the private label business in Q1 2019. The private label business was integrated into the Fashion Store segment in Q2 2019. Hence, private label business revenue shifted from all other segments to the Fashion Store segment. As private label business revenue solely comprises intersegment transactions with the Fashion Store segment, the shift did not in fact impact Fashion Store revenue. In addition, the coronavirus pandemic slowed growth in all other segments. The EBIT margin in all other segments increased by 7.6 percentage points to -12.6% in the first six months of 2020 in comparison to the first six months of 2019, driven mainly by the fact that no restructuring costs were incurred in 2020.

(12.) Subsequent Events

On July 30, 2020, Zalando SE placed two tranches of unsubordinated, unsecured convertible bonds with an aggregate principal amount of EUR 1,000.0m and each with a principal amount of EUR 500.0m. Tranche A was issued at a price of 100.88%, with a coupon of 0.050% per annum and a maturity of five years. Tranche B was priced at 100.00%, with a coupon of 0.625% per annum and a maturity of seven years. The bonds are divided into units of EUR 100,000.

The bonds are convertible into new and/or existing no-par value ordinary bearer shares of the company. The conversion price is set at EUR 87.6375 (Tranche A) and EUR 92.2500 (Tranche B) above the reference share price, which represents a conversion premium of 42.5% and 50.0%. Zalando may redeem the Bonds outstanding at an earlier date than maturity under certain conditions.

No other significant event occurred subsequent to the reporting date which could materially affect the presentation of the financial performance and position of the group.

Berlin, August 6, 2020

The Management Board

Robert Gentz David Schneider Rubin Ritter James M. Freeman, II David Schröder

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 6, 2020

The Management Board

Robert Gentz David Schneider Rubin Ritter James M. Freeman, II David Schröder

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, 2020, which are part of the half-year financial report pursuant to Sec. 115 WpHG [“Wertpapierhandelsgesetz”: 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 6, 2020

Ernst & Young GmbH
Wirtschaftsprüfungsgesellschaft

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

Service

03

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 cancellations or returns.

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 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 Commerce

We define mobile commerce as retail via mobile devices such as smartphones or tablet computers.

Mobile Visit Share (as % of Site Visits)

We define the mobile visit share (as % of site visits) as the number of page views via m.sites, t.sites or apps divided by the total number of page views during the period in question.

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.

3.2 Financial Calendar 2020

Financial Calendar

Date	Event
Wednesday, November 4	Publication of the third quarter results 2020

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. 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>.

