

Half-Year Report 2022



zalando



Zalando at a glance

Key figures

	Apr 1 – Jun 30, 2022	Apr 1 – Jun 30, 2021	Change	Jan 1 – Jun 30, 2022	Jan 1 – Jun 30, 2021	Change
Key performance indicators						
Gross Merchandise Volume (GMV**) (in EUR m)	3,781.0	3,780.0	0.0%	6,937.8	6,931.9	0.1%
Revenue (in EUR m)	2,623.0	2,733.1	-4.0%	4,828.1	4,970.9	-2.9%
EBIT (in EUR m)	61.0	186.4	-67.3%	-7.1	264.9	-102.7%
EBIT margin (as %)	2.3	6.8	-4.5pp	-0.1	5.3	-5.5pp
Adjusted EBIT (in EUR m)	77.4	184.1	-57.9%	25.6	277.4	-90.8%
Adjusted EBIT margin (as %)	3.0	6.7	-3.8pp	0.5	5.6	-5.1pp
Net working capital (in EUR m)***	206.6	-162.1	227.5%	206.6	-162.1	227.5%
Capex (in EUR m)	-74.5	-51.6	44.4%	-140.8	-91.4	54.0%
Active customers (in millions)	49.3	44.5	10.6%	49.3	44.5	10.6%
Number of orders (in millions)	67.8	65.6	3.2%	125.8	121.6	3.8%
Average GMV per active customer (LTM*) (in EUR)	291.0	289.5	0.5%	291.0	289.5	0.5%
Average orders per active customer (LTM*)	5.2	5.0	3.6%	5.2	5.0	3.6%
Average basket size (LTM*) (in EUR)	55.9	57.7	-3.0%	55.9	57.7	-3.0%
Other key figures						
Equity ratio (as % of total assets)***	30.6	32.2	-1.6pp	30.6	32.2	-1.6pp
Cash flow from operating activities (in EUR m)	136.2	361.8	-62.3%	-325.3	259.0	-225.6%
Cash flow from investing activities (in EUR m)	-77.5	-51.8	-49.7%	-147.7	-91.6	-61.3%
Free cash flow (in EUR m)	56.2	310.2	-81.9%	-475.5	167.6	-383.7%
Cash and cash equivalents (in EUR m)	1,631.1	2,298.7	-29.0%	1,631.1	2,298.7	-29.0%
Employees (as of the reporting date)***	17,069	17,043	0.2%	17,069	17,043	0.2%
Basic earnings per share (in EUR)	0.05	0.46	-88.2%	-0.18	0.60	-130.5%
Diluted earnings per share (in EUR)	0.05	0.45	-88.0%	-0.18	0.60	-130.7%

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 statement.

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

**) 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 expressdelivery fees); these are included in revenue only. GMV is recorded based on the time of the customer order.

***) As of Jun 30, 2022 and Dec 31, 2021, respectively

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Interim group management report

1.1 Background to the group

The statements made in the annual report 2021 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.

On July 1, 2022, Zalando acquired 86.83% of all shares of Titel Media GmbH, Berlin (“Highsnobiety”), and signed a call and put option agreement to acquire the remaining 13.17% of the shares over the next three years. Highsnobiety comprises a publishing arm, creative consultancy and a curated commerce platform and is a global voice in the luxury space and in culture at large.

While continuing independent operations, Highsnobiety will act as a strategic and creative consultant, helping us to develop new inspiration-focused spaces and formats on our platform. Highsnobiety’s unique capabilities will play into our ambitions to weave inspirational experiences into the customer journey and create an exciting and engaging online environment for both consumers and brands. The purchase price comprises a cash payment of EUR 123.6m and an amount of EUR 35.0m paid by issuing 1,011,665 new no-par value bearer shares. The call and put option exercise price for the remaining shares can total up to EUR 24.3m.

1.2 Report on economic position

1.2.1 Macroeconomic and sector-specific environment in HY1 2022

Russia’s war in Ukraine, among other circumstances, has triggered a cost-of-living crisis, affecting people worldwide. Compounded by China’s zero-COVID policy, the war has set the global economy on a course of slower growth and rising inflation – a situation not seen since the 1970s. Prior to the war, the world economy was on track for a strong, albeit uneven, recovery from COVID-19. The conflict in Ukraine and the supply-chain disruptions exacerbated by shutdowns in China represent a serious threat to the recovery. The countries most affected, due to the repercussions of the war on energy imports and refugee flows, are in Europe, where the slowdown in GDP growth is most noticeable. European GDP growth is now projected to slow significantly this year, to 2.6%, slowing still further in 2023 (1.6%). This is well below the pace of recovery of 4.5% projected last December.¹

Commodity prices have also soared due to the current economic situation, adding to inflationary pressures with inflation forecasts in OECD countries doubling to 9%. The impact of the increase in inflation on real income has affected household consumption given that food and energy represent a high proportion of the current total expenditure in households.²

¹ OECD Economic Outlook, June 2022

² OECD Economic Outlook, June 2022

The consumer confidence indicator in the European Union plummeted to -24 at the end of June of 2022 (long-term average is -9.8), the lowest level seen since April 2020.³

In addition, the repercussions of the war in Ukraine are causing households to consume less due to fears of a recession, which is exerting additional pressure on consumer sentiment.⁴

The current consumer mood has also impacted e-commerce. During Q2 2022, sales in German e-commerce declined by 9.6% compared to the same period of the prior year, although current total sales are more than 8% higher than Q2 2020. The clothing segment (apparel & shoes) within German e-commerce experienced a decline of 11.1% to EUR 5.0bn including VAT. As for HY1 2022, the German e-commerce clothing segment (apparel & shoes) sustained a 4.3% decline in revenue to EUR 10.3bn including VAT compared to HY1 2021.⁵

³ European Commission, EU 27, June 2022

⁴ Textilwirtschaft revenue statistics, July 2022

⁵ BEVH press releases, April and July 2022

1.2.2 Financial performance of the group

Consolidated income statement HY1 2022

IN EUR M	Jan 1 – Jun 30, 2022	As % of revenue	Jan 1 – Jun 30, 2021	As % of revenue	Change
Revenue	4,828.1	100.0%	4,970.9	100.0%	0.0pp
Cost of sales	-2,898.5	-60.0%	-2,849.0	-57.3%	-2.7pp
Gross profit	1,929.6	40.0%	2,122.0	42.7%	-2.7pp
Fulfillment costs	-1,333.8	-27.6%	-1,232.9	-24.8%	-2.8pp
Marketing costs	-377.0	-7.8%	-440.7	-8.9%	1.1pp
Administrative expenses	-233.6	-4.8%	-199.9	-4.0%	-0.8pp
Other operating income	11.8	0.2%	19.9	0.4%	-0.2pp
Other operating expenses	-4.0	-0.1%	-3.4	-0.1%	0.0pp
EBIT	-7.1	-0.1%	264.9	5.3%	-5.5pp
Share-based payments	32.7	0.7%	26.0	0.5%	0.2pp
One-time effects	0.0	0.0%	-13.6	-0.3%	0.3pp
Adjusted EBIT	25.6	0.5%	277.4	5.6%	-5.1pp

Consolidated income statement Q2 2022

IN EUR M	Apr 1 – Jun 30, 2022	As % of revenue	Apr 1 – Jun 30, 2021	As % of revenue	Change
Revenue	2,623.0	100.0%	2,733.1	100.0%	0.0pp
Cost of sales	-1,546.7	-59.0%	-1,524.2	-55.8%	-3.2pp
Gross profit	1,076.4	41.0%	1,208.9	44.2%	-3.2pp
Fulfillment costs	-683.2	-26.0%	-662.1	-24.2%	-1.8pp
Marketing costs	-208.8	-8.0%	-267.7	-9.8%	1.8pp
Administrative expenses	-126.3	-4.8%	-107.8	-3.9%	-0.9pp
Other operating income	4.4	0.2%	17.4	0.6%	-0.5pp
Other operating expenses	-1.5	-0.1%	-2.4	-0.1%	0.0pp
EBIT	61.0	2.3%	186.4	6.8%	-4.5pp
Share-based payments	16.4	0.6%	11.3	0.4%	0.2pp
One-time effects	0.0	0.0%	-13.6	-0.5%	0.5pp
Adjusted EBIT	77.4	3.0%	184.1	6.7%	-3.8pp

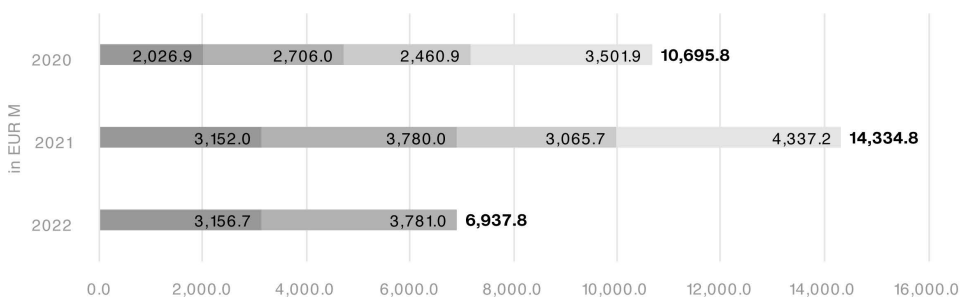
In HY1 2022, our GMV of EUR 6,937.8m remained stable compared to the prior-year period with EUR 6,931.9m, while our revenue decreased by 2.9%. We saw a slower business development compared to the exceptionally strong GMV growth of 46.5% in the comparable first six months of 2021 when several European countries were in lockdown. Headwinds to our growth are coming from overarching external factors, notably (i) lower consumer confidence,

(ii) inflationary pressures and fears of a recession as well as (iii) selected supply shortages impacting availability.

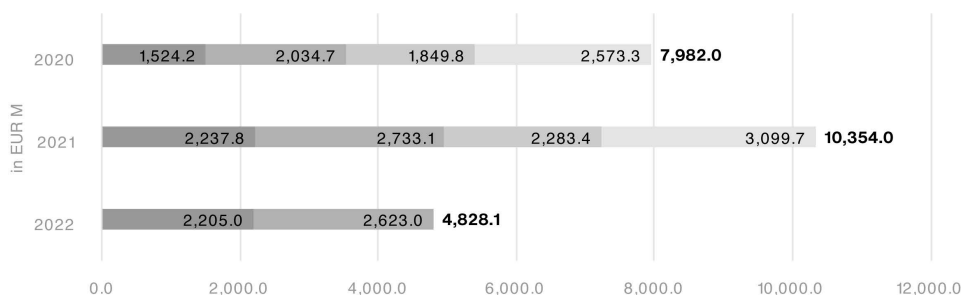
At the end of HY1 2022, we served 49.3 million active customers compared to 44.5 million active customers as of June 30, 2021, both measured on an LTM-basis, an increase of 10.6%. Average orders per active customer, measured on an LTM-basis, at 5.2 (prior-year period: 5.0) was in line with first six months of 2021. The continued strong growth of our Partner Program led to an increased Partner Program share in GMV. Our platform business model gives us the flexibility to adapt quickly to changing customer preferences.

In HY1 2022, revenue decreased by 2.9% or EUR 142.9m to EUR 4,828.1m compared to the prior-year period. The difference between GMV and revenue development is mainly the result of the strong growth of the Partner Program, which is fully reflected in the GMV metric, while revenue only includes the commission income and service fees from partners.

GMV by quarter (2020 – 2022)



Revenue by quarter (2020 – 2022)



In HY1 2022, cost of sales rose by EUR 49.6m to EUR 2,898.5m, leading to a gross margin decrease of 2.7 percentage points. The decline in gross margin is mostly attributable to prolonged sales periods and price investment to reduce overstock levels.

Compared to the prior-year period, fulfillment costs as a percentage of revenue increased by 2.8 percentage points in the first six months of 2022. The fulfillment cost ratio was negatively affected, primarily by inflationary pressures and an increasing return rate, partly mitigated by the introduction of minimum order values (MOV) in 15 additional countries and temporary fuel surcharges passed on to Zalando Fulfillment Solutions (ZFS) partners.

The marketing cost ratio developed favorably, decreasing 1.1 percentage points in the first half year of 2022 compared to the prior-year period, as a result of reduced brand marketing and increased ROI targets for performance marketing.

Administrative expenses increased from EUR 199.9m in the prior-year period to EUR 233.6m in the first six months of 2022, increasing by 0.8 percentage points in proportion to revenue. The higher administrative cost ratio was mostly due to a larger increase in personnel and IT cost compared to revenue growth.

In HY1 2022, we generated an adjusted EBIT of EUR 25.6m (prior-year period: EUR 277.4m), and an adjusted EBIT margin of 0.5% (prior-year period: 5.6%), whereas our EBIT amounted to EUR -7.1m in the in HY1 2022 (prior-year period: EUR 264.9m), while generating an EBIT margin of -0.1% (HY1 2021: 5.3%). The development was driven by a lower gross margin as well as an increase in the fulfillment and administrative cost ratio. In contrast to the adjusted EBIT, the EBIT in HY1 2022 comprises expenses from equity-settled share-based payments amounting to EUR 32.7m (prior-year period: EUR 26.0m) of which an amount of EUR 16.4m is attributable to Q2 2022 (prior-year period: EUR 11.3m). In the prior-year period, 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-operating one-time effect.

In HY1 2022, income taxes amounting to EUR -16.7m (HY1 2021: EUR -70.6m) consist of current taxes of EUR -15.5m (HY1 2021: EUR -78.7m) and deferred taxes of EUR -1.2m (HY1 2021: EUR 8.1m).

Hence, we recorded net income of EUR -47.3m (HY1 2021: EUR 154.9m) in the first six months of 2022. Due to the fact that the share in equity held by non-controlling interests was reduced to zero in Q1 2022, no net income attributable to non-controlling interests has been recorded in HY1 2022.

1.2.3 Results by segment

The condensed segment results for the HY1 2022 reflect a slower business development compared to the corresponding prior-year period across all segments.

Segment results of the group HY1

IN EUR M	Fashion Store	Offprice	All other segments	Total	Reconciliation	Total group
Revenue	4,365.3	688.8	140.8	5,194.8	-366.7	4,828.1
<i>(prior year)</i>	<i>(4,500.0)</i>	<i>(678.3)</i>	<i>(125.5)</i>	<i>(5,303.8)</i>	<i>(-332.9)</i>	<i>(4,970.9)</i>
thereof intersegment revenue	331.8	1.9	33.0	366.7	-366.7	0.0
<i>(prior year)</i>	<i>(307.7)</i>	<i>(0.7)</i>	<i>(24.5)</i>	<i>(332.9)</i>	<i>(-332.9)</i>	<i>(0.0)</i>
EBIT	-25.5	11.4	4.9	-9.2	2.1	-7.1
<i>(prior year)</i>	<i>(212.7)</i>	<i>(50.0)</i>	<i>(-1.0)</i>	<i>(261.8)</i>	<i>(3.2)</i>	<i>(264.9)</i>
Share-based payments	26.3	4.5	1.9	32.7	0.0	32.7
<i>(prior year)</i>	<i>(21.0)</i>	<i>(3.4)</i>	<i>(1.7)</i>	<i>(26.0)</i>	<i>(0.0)</i>	<i>(26.0)</i>
One-time effects	0.0	0.0	0.0	0.0	0.0	0.0
<i>(prior year)</i>	<i>(-12.6)</i>	<i>(-0.5)</i>	<i>(-0.5)</i>	<i>(-13.6)</i>	<i>(0.0)</i>	<i>(-13.6)</i>
Adjusted EBIT	0.8	15.9	6.7	23.5	2.1	25.6
<i>(prior year)</i>	<i>(221.1)</i>	<i>(52.9)</i>	<i>(0.2)</i>	<i>(274.2)</i>	<i>(3.2)</i>	<i>(277.4)</i>

The condensed segment results for Q2 2022 are shown in the table below:

Segment results of the group Q2

IN EUR M	Fashion Store	Offprice	All other segments	Total	Reconciliation	Total group
Revenue	2,376.7	376.2	81.9	2,834.8	-211.7	2,623.0
<i>(prior year)</i>	<i>(2,490.8)</i>	<i>(360.5)</i>	<i>(66.8)</i>	<i>(2,918.0)</i>	<i>(-184.9)</i>	<i>(2,733.1)</i>
thereof intersegment revenue	190.8	1.3	19.7	211.7	-211.7	0.0
<i>(prior year)</i>	<i>(173.1)</i>	<i>(0.5)</i>	<i>(10.9)</i>	<i>(184.5)</i>	<i>(-184.5)</i>	<i>(0.0)</i>
EBIT	47.6	7.2	6.8	61.7	-0.6	61.0
<i>(prior year)</i>	<i>(159.1)</i>	<i>(26.0)</i>	<i>(-0.5)</i>	<i>(184.6)</i>	<i>(1.8)</i>	<i>(186.4)</i>
Share-based payments	13.4	2.2	0.8	16.4	0.0	16.4
<i>(prior year)</i>	<i>(9.1)</i>	<i>(1.4)</i>	<i>(0.8)</i>	<i>(11.3)</i>	<i>(0.0)</i>	<i>(11.3)</i>
One-time effects	0.0	0.0	0.0	0.0	0.0	0.0
<i>(prior year)</i>	<i>(-12.6)</i>	<i>(-0.5)</i>	<i>(-0.5)</i>	<i>(-13.6)</i>	<i>(0.0)</i>	<i>(-13.6)</i>
Adjusted EBIT	61.0	9.5	7.6	78.1	-0.6	77.4
<i>(prior year)</i>	<i>(155.6)</i>	<i>(27.0)</i>	<i>(-0.3)</i>	<i>(182.3)</i>	<i>(1.8)</i>	<i>(184.1)</i>

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 results by region Q2

IN EUR M	DACH	Rest of Europe	Fashion Store
Revenue	1,070.5	1,306.2	2,376.7
<i>(prior year)</i>	<i>(1,159.3)</i>	<i>(1,331.4)</i>	<i>(2,490.8)</i>
thereof intersegment revenue	80.0	110.8	190.8
<i>(prior year)</i>	<i>(88.8)</i>	<i>(84.2)</i>	<i>(173.1)</i>
EBIT	46.5	1.1	47.6
<i>(prior year)</i>	<i>(121.9)</i>	<i>(37.1)</i>	<i>(159.1)</i>
Adjusted EBIT	52.4	8.6	61.0
<i>(prior year)</i>	<i>(119.9)</i>	<i>(35.7)</i>	<i>(155.6)</i>

In the Fashion Store segment, revenue decreased by 3.0% in HY1 2022 compared to the corresponding prior-year period which is mainly attributable to a comparatively weaker demand environment and ongoing selected supply shortages impacting availability. While the number of orders increased by a mid-single digit percentage compared to the corresponding prior-year period, the average basket size after returns decreased. The adjusted EBIT margin (EBIT margin) in the Fashion Store segment was at 0.0% (-0.6%) in the first six months of 2022 compared to 4.9% (4.7%) in the prior-year period.

The negative development of the Fashion Store EBIT margin is mainly attributable to a lower gross margin as well as an increased fulfillment cost ratio on the back of slower growth.

The gross profit margin in the Fashion Store decreased primarily due to prolonged sales periods and price investment to reduce overstock levels. Fashion Store fulfillment costs in relation to revenue increased, primarily as a result of inflationary pressures and an increasing return rate, partly mitigated by the introduction of MOV in 15 additional countries and temporary fuel surcharges passed on to ZFS partners.

In the Offprice segment, revenue grew by 1.5% in HY1 2022 compared to the corresponding prior-year period. The development is the result of the challenging sourcing situation that has been ongoing since Q4 2021 in combination with the current macroeconomic environment. Main drivers were the offer quality and quantity and the overall slowdown in demand. In HY1 2022, the Offprice segment recorded an adjusted EBIT margin (EBIT margin) of 2.3% (1.7%), equivalent to a reduction of 5.5 percentage points (5.7 percentage points) compared to the prior-year period. The lower Offprice EBIT margin is likewise attributable to a gross margin decline due to prolonged sales periods and price investment coupled with an unfavorable development of the fulfillment cost ratio.

In all other segments total revenue increased by 12.2% during the first half of the year compared to the prior-year period, the main reason being the strong performance of Zalando Marketing Services (ZMS). The adjusted EBIT margin (EBIT margin) in all other segments increased by 4.7 percentage points (4.2 percentage points) in comparison to the first six months of 2021, resulting in an adjusted EBIT margin (EBIT margin) of 4.8% (3.5%) in the first six months of 2022.

1.2.4 Cash flows

The liquidity and 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, 2022	Apr 1 – Jun 30, 2021	Jan 1 – Jun 30, 2022	Jan 1 – Jun 30, 2021
Cash flow from operating activities	136.2	361.8	-325.3	259.0
Cash flow from investing activities	-77.5	-51.8	-147.7	-91.6
Cash flow from financing activities	-28.4	-125.8	-187.9	-503.9
Change in cash and cash equivalents	30.4	184.3	-660.8	-336.5
Exchange-rate related and other changes in cash and cash equivalents	5.9	-9.5	4.0	-8.8
Cash and cash equivalents at the beginning of the period	1,594.8	2,123.9	2,287.9	2,644.0
Cash and cash equivalents as of June 30	1,631.1	2,298.7	1,631.1	2,298.7
Free cash flow	56.2	310.2	-475.5	167.6

In the first half of 2022, we generated a negative cash flow from operating activities of EUR -325.3m (prior year: EUR 259.0m) which was largely driven by a significant increase in inventories and a decrease in trade payables and similar liabilities. The considerable increase in inventories was driven by rising stock inbound levels in Q1 2022, and a slowdown in demand, particularly in our wholesale business. The decrease of EUR 584.2m in the first half of 2022 compared to the prior-year period was mainly the result of the EBIT development and the significant change in trade payables and similar liabilities.

Cash outflow from investing activities is predominately impacted by capex, amounting to EUR 140.8m (prior year: EUR 91.4m), primarily consisting of investments in the logistics infrastructure relating to the fulfillment centers in Poland and the Netherlands as well as capital expenditures on internally developed software.

As a result, free cash flow decreased by EUR 643.0m from EUR 167.6m to EUR -475.5m in HY1 2022 compared to the prior-year period.

In the first half of 2022, the cash outflows from financing activities predominately include the repurchase of treasury shares amounting to EUR 136.0m. The main reason for the difference to the prior-year period was the repayment of the revolving credit facility in 2021, which resulted in cash outflows from financing activities of EUR 375.0m in the prior year.

Overall, cash and cash equivalents decreased by EUR 667.6m in the first half of 2022 but remained strong at EUR 1,631.1m as of June 30, 2022.

On May 20, 2022, ZALANDO SE entered into a new revolving credit facility for an amount of EUR 1,250.0m with a group of banks which substitutes the EUR 500.0m revolving credit facility entered into on December 15, 2016. The new facility can be drawn in EUR and utilized for general business purposes (including acquisitions) as well as for guarantees. The facility initially expires on May 20, 2027 but can be extended until May 20, 2029 and can be increased up to an amount of EUR 1,500.0m. As of June 30, 2022 an amount of EUR 131.6m had been utilized for bank guarantees and letters of credit (prior-year period: EUR 107.5m).

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, 2022		Dec 31, 2021		Change	
Non-current assets	2,109.4	31.1%	1,901.4	27.6%	208.0	10.9%
Current assets	4,681.0	68.9%	4,995.6	72.4%	-314.7	-6.3%
Total assets	6,790.4	100.0%	6,897.0	100.0%	-106.6	-1.5%

Equity and liabilities

IN EUR M	Jun 30, 2022		Dec 31, 2021		Change	
Equity	2,075.3	30.6%	2,218.8	32.2%	-143.5	-6.5%
Non-current liabilities	1,736.1	25.6%	1,580.7	22.9%	155.4	9.8%
Current liabilities	2,978.9	43.9%	3,097.5	44.9%	-118.6	-3.8%
Total equity and liabilities	6,790.4	100.0%	6,897.0	100.0%	-106.6	-1.5%

Compared to December 31, 2021, our total assets decreased by 1.5% to EUR 6,790.4m.

The statement of financial position is dominated by working capital, cash and cash equivalents as well as equity.

In the first six months of 2022, additions to intangible assets amounted to EUR 39.7m (prior year: EUR 43.2m) and additions to property, plant and equipment totaled EUR 109.2m (prior year: EUR 45.2m), primarily relating to the fulfillment centers in Poland and the Netherlands. Our right-of-use assets have a carrying amount of EUR 708.5m as of June 30, 2022.

The increase of EUR 124.4m mainly resulted from the commencement of new lease contracts for an office building in Germany and a warehouse in Poland entered into in Q1 2022.

Inventories mainly comprise goods required for our wholesale business. The 13.6% increase in inventories to EUR 1,758.6m was mainly driven by the rising stock inbound levels that were built up in the first quarter and a slowdown in demand.

In the first half year of 2022, the EUR 143.5m decrease in equity primarily stems from the repurchase of treasury shares (EUR 136.2m) in the share buy-back program and the negative net income, partly offset by share-based compensation. The equity ratio decreased from 32.2% at the beginning of the year to 30.6% as of June 30, 2022.

Lease liabilities of EUR 811.4m were recognized as of June 30, 2022, thereof EUR 692.1m non-current and EUR 119.3m current. The increase of EUR 131.5m results from new lease contracts entered into in Q1 2022.

Trade payables and similar liabilities dropped by EUR 189.9m in the first six months of 2022. Under reverse factoring agreements, suppliers' claims against Zalando totaling EUR 603.0m as of June 30, 2022 were transferred to various factoring providers (December 31, 2021: EUR 599.8m). 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 -162.1m as of December 31, 2021 to EUR 206.6m as of June 30, 2022. The increase mainly results from the increase in inventories and the decrease in trade payables and similar liabilities, partly compensated by the decrease in trade and other receivables.

Overall assessment

The Management Board is satisfied with the business development in the first half of 2022 as despite macroeconomic headwinds, the execution of our Starting Point strategy is progressing well, resulting in continued and sustained improvement of key customer and partner metrics. The first half of 2022 was impacted by macroeconomic factors, following strong growth from last year. In such a challenging market environment, we managed to maintain our GMV at a constant level while the online fashion segment recorded negative growth rates during the same period. However since macroeconomic conditions have further deteriorated during the second quarter of 2022 with the EU consumer confidence index dropping further in June, we updated our full year outlook on June 23, 2022. Previously on May 5, 2022 the company's guidance for FY 2022 pointed towards the lower end of 16% – 23% for GMV growth, 12% – 19% for revenue growth, an adjusted EBIT of EUR 430.0m – EUR 510.0m and capex of EUR 400.0m – EUR 500.0m, based on anticipated challenges, but also early signs of potential recovery. The Board now expects macroeconomic challenges to be longer lasting and more intense than previously anticipated and therefore it has updated its guidance for FY 2022. We expect GMV to grow between 3% and 7% to EUR 14.8bn – EUR 15.3bn for the fiscal year 2022. Revenue is expected to grow between 0% and 3% to EUR 10.4bn – EUR 10.7bn with an adjusted EBIT of EUR 180.0m – EUR 260.0m in the same period (EBIT of EUR 115.0m – EUR 195.0m). Capex for the year 2022 is expected to be in the range of EUR 350.0m – EUR 400.0m and net working capital to be neutral at the end of the fiscal year 2022. The revised full year outlook implies an acceleration of growth and a significant improvement in profitability in the second half of 2022 based on an ongoing company-wide effort to adjust the offer to changing customer demand and to drive efficiencies across all cost lines.

1.2.6 Employees

The development of headcount remained flat at 17,069 employees as of June 30, 2022, compared to 17,043 employees as of December 31, 2021.

1.3 Risk and opportunity report

Our Risk & Opportunity Management system provides a framework to consistently assess our opportunities and risks in a changing environment. HY1 2022 has been shaped by market and geopolitical developments, such as massive inflationary pressures and the war in Ukraine, that triggered a demand shock and supply chain pressures. Despite the significant challenges brought about by these events, the output of our HY1 2022 risk assessment process indicates no single critical risk or aggregated risk cluster that might threaten us overall as a going concern.

Zalando is exposed to risks that may negatively impact business activities, the group's financial situation, or its assets. With the current macroeconomic developments, we are challenged by weakened consumer sentiment and increased prices on raw materials and supply chain costs, which are putting significant pressure on our profitability targets. Moving forward we anticipate the challenges outlined above to persist and possibly extend in magnitude. To manage this, we have adjusted our offer to changing consumer demand, we are focusing on improving our order economics and we are driving cost efficiency initiatives across the business. In the event of a potential limitation of gas supply this winter, we do not expect a material impact on our operating activities. The majority of our gas consumption is to provide heating in our warehouses, where we have considered necessary preventative and reactive mitigating measures. Hence, we do not see any direct impacts on our half year financial statements.

The risk categories described in the Risk and Opportunity section in the annual report 2021 remain valid in the current reporting period. No additional risk clusters have been assessed as material or critical. Key levers that are contributing towards achieving our revised growth and profitability targets include our strong customer relationships and customer engagement, our platform business model, as well as our focus on driving efficiencies across all cost lines.

1.4 Outlook

1.4.1 Future macroeconomic and industry-specific situation

The war in Ukraine has severely affected consumer confidence, with soaring energy and food prices. In addition, pandemic-related disruptions in China have exacerbated existing supply chain pressures. As a result, European GDP growth expectations have changed to 2.6% in 2022 and slowing still further in 2023 (1.6%)⁶ Accordingly, private consumption will also follow this downward trend as an increasing share of the household wallet is spent on food and energy. In Germany, private consumption is anticipated to decline sharply in 2022. German GDP is projected to grow by 1.9% in 2022 and 1.7% in 2023.⁷

The table below shows the percentage changes of private consumption for the period 2019 through 2023.

Private consumption growth per country

	Historical data			Forecast projection	
	2019	2020	2021	2022	2023
Europe Area	1.3	-8.0	3.6	2.6	1.5
Germany	1.7	-6.3	0.3	3.4	1.9
Switzerland	1.4	-4.5	2.6	3.1	0.8
Spain	0.9	-12.1	4.6	0.1	3.2
France	1.5	-7.3	5.3	2.4	1.3
Italy	0.4	-10.7	5.2	1.6	0.7

Source: OECD Household spending, July 2022

The baseline projection estimates that the intense phase of the war in Ukraine will continue until the end of the year with no escalation.⁸ As a consequence, headline HICP inflation is expected to remain very high for most of 2022, averaging 6.8%. For the following year, inflation is expected to moderate to 3.5% in 2023. This decrease in inflation in the following two years mainly reflects an assumed moderation in energy and food commodity prices in the absence of additional shocks. In addition, the higher interest rates assumption and the ongoing normalization of monetary policy will also contribute to the moderation of inflation.⁹

Consumer behavior in terms of sales channel selection showed a continued normalization, lifting growth for the bricks-and-mortar retail sector. By May, however, offline sales figures in Germany had returned to sales levels seen in mid-2021 indicating that reopening tailwinds are being replaced by macroeconomic headwinds for offline and online retail.^{10,11}

⁶ OECD Economic Outlook, June 2022

⁷ OECD Economic Outlook, July 2022

⁸ European Central Bank, June 2022

⁹ World Bank: Global Economic Prospects, June 2022

¹⁰ Statista, July 2022

¹¹ BEVH, June 2022

Most brick-and-mortar fashion retailers see consumer sentiment and high inflation as the biggest challenge in the second half of the year. For the coming years, online penetration is expected to increase and we remain convinced that Zalando is well positioned to continue on its profitable growth path going forward.

1.4.2 Guidance

During the second quarter of 2022, macroeconomic conditions have further deteriorated with the EU consumer confidence index dropping further. The war in Ukraine has severely affected confidence and has led to soaring energy and food prices. In addition, pandemic-related disruptions in China have exacerbated existing supply chain pressures.

Zalando therefore revised its guidance for the fiscal year 2022 towards the end of June. The company's previous outlook, from early May, pointed to the lower end of full year guidance based on anticipated challenges, but also early signs of a potential recovery. Zalando now expects macroeconomic challenges to be longer lasting and more intense, whereas we do not expect a material impact on our operating activities from a potential limitation of gas supply this winter.

Zalando anticipates GMV growth for 2022 of between 3% and 7% to EUR 14.8bn – EUR 15.3bn and revenue growth between 0% and 3% to EUR 10.4bn – EUR 10.7bn with an adjusted EBIT of EUR 180.0m – EUR 260.0m in the same period implying a margin of 1.7% – 2.4% (EBIT of EUR 115.0m – EUR 195.0m).

The company lowered its anticipated investment volume but will continue to invest into its logistics and technology platform to enable long term growth and value creation. In terms of capital expenditure, Zalando now expects that capex for 2022 will be around EUR 350.0m – EUR 400.0m. Furthermore, the group now expects net working capital to be neutral at the end of the fiscal year 2022.

1.4.3 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 2022, the economic condition of the group remains solid.

Berlin, August 3, 2022

The Management Board

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

Interim consolidated financial statements

2.1 Consolidated statement of comprehensive income

Consolidated income statement

IN EUR M	Notes	Apr 1 – Jun 30, 2022	Apr 1 – Jun 30, 2021	Jan 1 – Jun 30, 2022	Jan 1 – Jun 30, 2021
Revenue	(1.)	2,623.0	2,733.1	4,828.1	4,970.9
Cost of sales	(2.)	-1,546.7	-1,524.2	-2,898.5	-2,849.0
Gross profit		1,076.4	1,208.9	1,929.6	2,122.0
Fulfillment costs		-683.2	-662.1	-1,333.8	-1,232.9
Marketing costs		-208.8	-267.7	-377.0	-440.7
Administrative expenses		-126.3	-107.8	-233.6	-199.9
Other operating income		4.4	17.4	11.8	19.9
Other operating expenses		-1.5	-2.4	-4.0	-3.4
Earnings before interest and taxes (EBIT)		61.0	186.4	-7.1	264.9
Interest and similar income		1.3	3.1	2.5	1.8
Interest and similar expenses		-14.2	-16.5	-28.7	-29.4
Other financial result		10.7	1.4	2.6	-11.9
Financial result		-2.2	-11.9	-23.6	-39.4
Earnings before taxes (EBT)		58.8	174.5	-30.6	225.5
Income taxes	(3.)	-44.8	-54.1	-16.7	-70.6
Net income for the period		14.0	120.4	-47.3	154.9
thereof net income attributable to shareholders of ZALANDO SE		14.0	120.4	-47.3	154.9
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		0.5%	4.4%	-1.0%	3.1%
Basic earnings per share (in EUR)	(4.)	0.05	0.46	-0.18	0.60
Diluted earnings per share (in EUR)	(4.)	0.05	0.45	-0.18	0.60

Consolidated income statement

IN EUR M	Apr 1 – Jun 30, 2022	Apr 1 – Jun 30, 2021	Jan 1 – Jun 30, 2022	Jan 1 – Jun 30, 2021
Net income for the period	14.0	120.4	-47.3	154.9
Items recycled to profit or loss in subsequent periods				
Effective portion of gains/losses from cash flow hedges, net of tax	33.4	-18.6	26.2	10.3
Exchange differences on translation of foreign financial statements	-2.4	-2.7	-3.8	-9.3
Other comprehensive income	31.0	-21.3	22.5	1.0
Total comprehensive income	45.0	99.1	-24.8	155.9
thereof total comprehensive income attributable to the shareholders of ZALANDO SE	45.0	99.1	-24.8	155.9
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, 2022	Dec 31, 2021
Non-current assets			
Intangible assets		269.8	263.0
Property, plant and equipment		1,020.0	959.4
Right-of-use assets	(6.)	708.5	584.2
Financial assets		86.7	78.1
Deferred tax assets		12.5	11.2
Non-financial assets		4.7	3.9
Investments accounted for using the equity method		7.2	1.7
		2,109.4	1,901.4
Current assets			
Inventories	(5.)	1,758.6	1,547.4
Trade and other receivables		695.1	727.4
Other financial assets		133.1	49.8
Other non-financial assets		463.1	383.0
Cash and cash equivalents	(9.)	1,631.1	2,287.9
		4,681.0	4,995.6
Total assets		6,790.4	6,897.0

Consolidated statement of financial position – equity and liabilities

IN EUR M	Notes	Jun 30, 2022	Dec 31, 2021
Equity			
Issued capital		257.2	258.7
Capital reserves		1,168.8	1,285.9
Other reserves		-14.4	-36.8
Retained earnings		663.7	711.1
Equity of shareholders of ZALANDO SE		2,075.3	2,219.0
Non-controlling interest		0.0	-0.2
	(7.)	2,075.3	2,218.8
Non-current liabilities			
Provisions		54.1	54.3
Lease liabilities	(6.)	692.1	579.0
Convertible bonds		905.9	895.0
Other financial liabilities		15.9	14.2
Other non-financial liabilities		4.5	4.6
Deferred tax liabilities		63.6	33.5
		1,736.1	1,580.7
Current liabilities			
Lease liabilities	(6.)	119.3	101.0
Trade payables and similar liabilities	(8.)	2,247.1	2,437.0
Prepayments received	(8.)	39.8	40.6
Income tax liabilities		28.3	25.2
Other financial liabilities		255.0	214.9
Other non-financial liabilities		289.5	278.9
		2,978.9	3,097.5
Total equity and liabilities		6,790.4	6,897.0

2.3 Consolidated statement of changes in equity

Consolidated statement of changes in equity 2022

IN EUR M	Notes	Issued capital	Capital reserves
As of Jan 1, 2022		258.7	1,285.9
Net income for the period		0.0	0.0
Other comprehensive income		0.0	0.0
Total comprehensive income		0.0	0.0
Capital increase		0.4	0.3
Issue of treasury shares	(7.)	0.3	0.0
Repurchase of treasury shares	(7.)	-2.2	-134.0
Share-based payments		0.0	32.7
Deferred taxes from share-based payments		0.0	-16.1
Equity transactions with changes of stake		0.0	0.0
As of Jun 30, 2022		257.2	1,168.8

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		6.3	1.8
Issue 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 from share-based payments		0.0	13.2
As of Jun 30, 2021		258.9	1,376.2

Consolidated statement of changes in equity 2022

Other reserves		Retained earnings	Shareholders of ZALANDO SE	Non-controlling interest	Total
Cash flow hedges	Currency translation				
-26.2	-10.6	711.1	2,219.0	-0.2	2,218.8
0.0	0.0	-47.3	-47.3	0.0	-47.3
26.2	-3.8	0.0	22.5	0.0	22.5
26.2	-3.8	-47.3	-24.8	0.0	-24.8
0.0	0.0	0.0	0.7	0.0	0.7
0.0	0.0	0.0	0.2	0.0	0.2
0.0	0.0	0.0	-136.2	0.0	-136.2
0.0	0.0	0.0	32.7	0.0	32.7
0.0	0.0	0.0	-16.1	0.0	-16.1
0.0	0.0	-0.2	-0.2	0.2	0.0
0.0	-14.4	663.7	2,075.3	0.0	2,075.3

Consolidated statement of changes in equity 2021

Other reserves		Retained earnings	Shareholders of ZALANDO SE	Non-controlling interest	Total
Cash flow hedges	Currency translation				
-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

2.4 Consolidated statement of cash flows

Consolidated statement of cash flows

IN EUR M		Notes	Apr 1 – Jun 30, 2022	Apr 1 – Jun 30, 2021	Jan 1 – Jun 30, 2022	Jan 1 – Jun 30, 2021
1	Net income for the period		14.0	120.4	-47.3	154.9
2 +	Non-cash expenses from share-based payments		16.4	11.3	32.7	26.0
3 +	Depreciation of property, plant and equipment, right-of-use assets and amortization of intangible assets		66.5	57.3	128.2	110.5
4 +/-	Income taxes	(3.)	44.8	54.1	16.7	70.6
5 -	Income taxes paid, less refunds		-13.2	-25.5	-34.3	-50.5
6 +/-	Increase/decrease in provisions		0.0	-0.3	0.0	-0.5
7 -/+	Other non-cash income/expenses		0.0	5.3	-1.7	7.4
8 +/-	Decrease/increase in inventories	(5.)	194.2	208.4	-211.1	-189.5
9 +/-	Decrease/increase in trade and other receivables		-59.8	-147.7	32.3	-104.1
10 +/-	Increase/decrease in trade payables and similar liabilities	(8.)	-180.9	-0.8	-200.9	197.4
11 +/-	Increase/decrease in other assets/liabilities		54.2	79.5	-39.8	36.8
12 =	Cash flow from operating activities	(9.)	136.2	361.8	-325.3	259.0
13 -	Cash paid for investments in property, plant and equipment		-57.5	-31.0	-101.0	-47.1
14 -	Cash paid for investments in intangible assets		-17.0	-20.6	-39.7	-44.3
15 -	Cash paid for acquisition of shares in associated companies and acquisition of companies and prepayments for such acquisitions		-5.5	0.0	-9.4	0.0
16 +/-	Change in restricted cash		2.5	-0.2	2.5	-0.2
17 =	Cash flow from investing activities	(9.)	-77.5	-51.8	-147.7	-91.6
18 +	Cash received from capital increases by the shareholders and stock option exercises less transaction costs		0.5	5.0	0.9	19.4
19 -	Repurchase of treasury shares		0.0	-105.7	-136.0	-105.7
20 -	Cash repayments of loans		-3.3	-1.4	-3.3	-376.4
21 -	Cash payments for the principal portion of lease liabilities		-25.6	-23.6	-49.5	-41.3
22 =	Cash flow from financing activities	(9.)	-28.4	-125.8	-187.9	-503.9
23 =	Net change in cash and cash equivalents from cash relevant transactions		30.4	184.3	-660.8	-336.5
24 +/-	Change in cash and cash equivalents due to exchange rate movements		5.9	-9.5	4.0	-8.8
25 +	Cash and cash equivalents at the beginning of the period		1,594.8	2,123.9	2,287.9	2,644.0
26 =	Cash and cash equivalents as of June 30	(9.)	1,631.1	2,298.7	1,631.1	2,298.7

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

Cash-effective interest

IN EUR M	Apr 1 – Jun 30, 2022	Apr 1 – Jun 30, 2021	Jan 1 – Jun 30, 2022	Jan 1 – Jun 30, 2021
Interest paid	-9.7	-10.2	-17.8	-17.8
Interest received	0.7	2.5	1.3	1.0
Total	-9.0	-7.7	-16.5	-16.8

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, 2022	Apr 1 – Jun 30, 2021	Jan 1 – Jun 30, 2022	Jan 1 – Jun 30, 2021
Cash flow from operating activities	136.2	361.8	-325.3	259.0
Cash paid for investments in property, plant and equipment	-57.5	-31.0	-101.0	-47.1
Cash paid for investments in intangible assets	-17.0	-20.6	-39.7	-44.3
Cash paid for acquisition of shares in associated companies and acquisition of companies and prepayments for such acquisitions	-5.5	0.0	-9.4	0.0
Free cash flow	56.2	310.2	-475.5	167.6

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 consolidated financial statements as of June 30, 2022 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, 2021.

Accounting and measurement principles

The accounting policies and recognition and measurement methods applied in the consolidated financial statements as of December 31, 2021 have been applied without change.

As explained in the 2021 annual report, the first-time application of amendments to IFRS accounting standards or interpretations in fiscal year 2022 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, 2021 to 53 as of June 30, 2022.

2.5.2 Selected notes to the consolidated statement of comprehensive income

(1.) Revenue

Revenue	Apr 1 – Jun 30, 2022	Apr 1 – Jun 30, 2021	Jan 1 – Jun 30, 2022	Jan 1 – Jun 30, 2021
IN EUR M				
Revenue from the sale of merchandise	2,219.1	2,439.1	4,091.1	4,445.4
Revenue from other services	403.9	294.1	737.0	525.5
Total	2,623.0	2,733.1	4,828.1	4,970.9

In the first six months of 2022, revenue declined by 2.9% to EUR 4,828.1m (prior-year period: EUR 4,970.9m) compared to the corresponding prior-year period. The consumer confidence in our markets was negatively impacted by macroeconomic developments, particularly high inflation and fears of a recession.

(2.) Cost of sales

Cost of sales	Apr 1 – Jun 30, 2022	Apr 1 – Jun 30, 2021	Jan 1 – Jun 30, 2022	Jan 1 – Jun 30, 2021
IN EUR M				
Non-personnel costs	1,485.0	1,474.6	2,770.3	2,754.0
Personnel costs	61.7	49.6	128.2	95.0
Total	1,546.7	1,524.2	2,898.5	2,849.0

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 2,849.0m to EUR 2,898.5m.

For HY1 2022, cost of materials in the group totaled EUR 2,338.0m (prior-year period: EUR 2,406.6m) and write-downs on inventories amounted to EUR 111.3m (prior-year period: EUR 129.2m).

We generated a gross profit of EUR 1,929.6m in the first half of 2022 (prior-year period: EUR 2,122.0m) with the gross margin decreasing by 2.7 percentage points to 40.0%. The decline in gross margin is mostly attributable to prolonged sales periods and price investment to reduce overstock levels.

(3.) Income taxes

Income taxes

IN EUR M	Apr 1 – Jun 30, 2022	Apr 1 – Jun 30, 2021	Jan 1 – Jun 30, 2022	Jan 1 – Jun 30, 2021
Deferred taxes	-32.7	3.1	-1.2	8.1
Current taxes	-12.1	-57.2	-15.5	-78.7
Total	-44.8	-54.1	-16.7	-70.6

Income tax expense consists of current tax expense and deferred tax expense and includes income tax for previous years of EUR 3.5m and deferred tax expense of EUR 21.4m from the decrease of deferred tax assets on options granted under our share-based payment programs. The expected future deductible temporary difference for these programs is estimated based on the share price of Zalando at the reporting date. Consequently, the deferred tax asset has decreased in line with the development of Zalando's share price during the first six months of 2022. Besides that, we recognized deferred tax assets on negative results in the first half of the year 2022.

The increase of deferred tax expense in the second quarter of 2022 is likewise mainly related to the decrease of deferred tax assets on options granted under our share-based payment programs.

(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, 2022	Apr 1 – Jun 30, 2021	Jan 1 – Jun 30, 2022	Jan 1 – Jun 30, 2021
Net income for the period attributable to the shareholders of ZALANDO SE (in EUR m)	14.0	120.4	-47.3	154.9
Basic weighted average number of shares (in millions)	257.1	259.2	257.1	256.7
Total (in EUR)	0.05	0.46	-0.18	0.60

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, 2022	Apr 1 – Jun 30, 2021	Jan 1 – Jun 30, 2022	Jan 1 – Jun 30, 2021
Net income for the period attributable to the shareholders of ZALANDO SE (in EUR m)	14.0	125.7	-47.3	165.5
Diluted weighted average number of shares (in millions)	258.5	276.8	257.1	277.1
Total (in EUR)	0.05	0.45	-0.18	0.60

The dilutive effect basically stems 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, as in prior-year period, options granted within the scope of LTI 2021 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 our wholesale business. The 13.6% increase in inventories to EUR 1,758.6m was mainly driven by the rising stock inbound levels that were built up in the first quarter and a slowdown in demand.

(6.) Right-of-use assets and lease liabilities

Right-of-use assets have a carrying amount of EUR 708.5m as of June 30, 2022 and lease liabilities amount to EUR 811.4m as of June 30, 2022, thereof EUR 692.1m non-current and EUR 119.3m current. The increase in right-of-use assets of EUR 124.4m and in lease liabilities of EUR 131.5m predominately resulted from the commencement of new lease contracts for an office building in Germany and a warehouse in Poland entered into in Q1 2022.

(7.) Equity

In the first half year of 2022, the EUR 143.5m decrease in equity primarily stems from the repurchase of treasury shares (EUR 136.2m) in the share buy-back program and the negative net income, partly offset by share-based compensation. The equity ratio decreased from 32.2% at the beginning of the year to 30.6% as of June 30, 2022.

(8.) Trade payables and similar liabilities and prepayments received

Trade payables and similar liabilities dropped by EUR 189.9m in the first six months of 2022. Under reverse factoring agreements, suppliers' claims against Zalando totaling EUR 603.0m as of June 30, 2022 were transferred to various factoring providers (December 31, 2021: EUR 599.8m). 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 2022, we generated a negative cash flow from operating activities of EUR -325.3m (prior year: EUR 259.0m) which was largely driven by a significant increase in inventories and a decrease in trade payables and similar liabilities. The considerable increase in inventories was driven by rising stock inbound levels in Q1 2022, and a slowdown in demand, particularly in our wholesale business. The decrease of EUR 584.2m in the first half of 2022 compared to the prior-year period was mainly the result of the EBIT development and the significant change in trade payables and similar liabilities.

Cash outflow from investing activities is predominately impacted by capex, amounting to EUR 140.8m (prior year: EUR 91.4m), primarily consisting of investments in the logistics infrastructure relating to the fulfillment centers in Poland and the Netherlands as well as capital expenditures on internally developed software.

As a result, free cash flow decreased by EUR 643.0m from EUR 167.6m to EUR -475.5m in HY1 2022 compared to the prior-year period.

In the first half of 2022, the cash outflows from financing activities predominately include the repurchase of treasury shares amounting to EUR 136.0m. The main reason for the difference to the prior-year period was the repayment of the revolving credit facility in 2021, which resulted in cash outflows from financing activities of EUR 375.0m in the prior year.

Overall, cash and cash equivalents decreased by EUR 667.6m in the first half of 2022 but remained strong at EUR 1,631.1m as of June 30, 2022.

On May 20, 2022, ZALANDO SE entered into a new revolving credit facility for an amount of EUR 1,250.0m with a group of banks which substitutes the EUR 500.0m revolving credit facility entered into on December 15, 2016. The new facility can be drawn in EUR and utilized for general business purposes (including acquisitions) as well as for guarantees. The facility initially expires on May 20, 2027 but can be extended until May 20, 2029 and can be increased up to an amount of EUR 1,500.0m. As of June 30, 2022 an amount of EUR 131.6m had been utilized for bank guarantees and letters of credit (prior-year period: EUR 107.5m).

2.5.4 Other selected notes

(10.) Information about related parties

We 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. All transactions with related parties are related to the key management personnel of Zalando, i.e. were carried out with the members of the Management Board or Supervisory Board, their close family members or with entities controlled or jointly controlled by those persons or over which those persons have significant influence or in which those persons hold a position as a member of the key management personnel.

These transactions resulting from the purchase of goods and services gave rise to liabilities of EUR 192.0m as of the reporting date (prior-year period: EUR 165.4m). Of this amount, EUR 190.8m (prior-year period: EUR 165.4m) is due to a reverse factoring provider on account of reverse factoring agreements between us and related parties. As a result, there were trade payables or similar liabilities due directly to related parties totaling EUR 1.2m (prior-year period: EUR 0.0m). Trade receivables from related parties amount to EUR 0.7m (prior-year period: EUR 0.3m). Furthermore, we provided services to related parties of EUR 18.6m (prior-year period: EUR 15.0m).

Merchandise of EUR 191.1m was ordered from related parties in the reporting period. The order volume totaled EUR 149.7m in the comparative period of the prior year. In addition, goods totaling EUR 2.3m were sold to related parties (prior-year period: EUR 1.7m). As in the prior-year period, we received no services from related parties in the reporting period.

In addition, one member of the Management Board exercised 42,814 options under LTI 2019 and one former member of the Management Board exercised 0.4m options under SOP 2013 in the reporting period. In the prior-year period, members of the Management Board and entities fully owned by members of the Management Board exercised options – 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 first six months of 2022 reflect a slower business development compared to the corresponding prior-year period across all segments.

Segment results of the group HY1

IN EUR M	Fashion Store	Offprice	All other segments	Total	Reconciliation	Total group
Revenue	4,365.3	688.8	140.8	5,194.8	-366.7	4,828.1
<i>(prior year)</i>	<i>(4,500.0)</i>	<i>(678.3)</i>	<i>(125.5)</i>	<i>(5,303.8)</i>	<i>(-332.9)</i>	<i>(4,970.9)</i>
thereof intersegment revenue	331.8	1.9	33.0	366.7	-366.7	0.0
<i>(prior year)</i>	<i>(307.7)</i>	<i>(0.7)</i>	<i>(24.5)</i>	<i>(332.9)</i>	<i>(-332.9)</i>	<i>(0.0)</i>
EBIT	-25.5	11.4	4.9	-9.2	2.1	-7.1
<i>(prior year)</i>	<i>(212.7)</i>	<i>(50.0)</i>	<i>(-1.0)</i>	<i>(261.8)</i>	<i>(3.2)</i>	<i>(264.9)</i>
Adjusted EBIT	0.8	15.9	6.7	23.5	2.1	25.6
<i>(prior year)</i>	<i>(221.1)</i>	<i>(52.9)</i>	<i>(0.2)</i>	<i>(274.2)</i>	<i>(3.2)</i>	<i>(277.4)</i>

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 HY1

IN EUR M	DACH	Rest of Europe	Fashion Store
Revenue	1,954.3	2,410.9	4,365.3
<i>(prior year)</i>	<i>(2,080.3)</i>	<i>(2,419.7)</i>	<i>(4,500.0)</i>
thereof intersegment revenue	140.8	191.1	331.8
<i>(prior year)</i>	<i>(157.8)</i>	<i>(149.9)</i>	<i>(307.6)</i>
EBIT	63.5	-89.0	-25.5
<i>(prior year)</i>	<i>(199.9)</i>	<i>(12.8)</i>	<i>(212.7)</i>
Adjusted EBIT	74.5	-73.7	0.8
<i>(prior year)</i>	<i>(202.9)</i>	<i>(18.3)</i>	<i>(221.1)</i>

The condensed segment results for Q2 2022 are shown in the table below:

Segment results of the group Q2

IN EUR M	Fashion Store	Offprice	All other segments	Total	Reconciliation	Total group
Revenue	2,376.7	376.2	81.9	2,834.8	-211.7	2,623.0
<i>(prior year)</i>	<i>(2,490.8)</i>	<i>(360.5)</i>	<i>(66.8)</i>	<i>(2,918.0)</i>	<i>(-184.9)</i>	<i>(2,733.1)</i>
thereof intersegment revenue	190.8	1.3	19.7	211.7	-211.7	0.0
<i>(prior year)</i>	<i>(173.1)</i>	<i>(0.5)</i>	<i>(10.9)</i>	<i>(184.5)</i>	<i>(-184.5)</i>	<i>(0.0)</i>
EBIT	47.6	7.2	6.8	61.7	-0.6	61.0
<i>(prior year)</i>	<i>(159.1)</i>	<i>(26.0)</i>	<i>(-0.5)</i>	<i>(184.6)</i>	<i>(1.8)</i>	<i>(186.4)</i>
Adjusted EBIT	61.0	9.5	7.6	78.1	-0.6	77.4
<i>(prior year)</i>	<i>(155.6)</i>	<i>(27.0)</i>	<i>(-0.3)</i>	<i>(182.3)</i>	<i>(1.8)</i>	<i>(184.1)</i>

Fashion Store results by region Q2

IN EUR M	DACH	Rest of Europe	Fashion Store
Revenue	1,070.5	1,306.2	2,376.7
<i>(prior year)</i>	<i>(1,159.3)</i>	<i>(1,331.4)</i>	<i>(2,490.8)</i>
thereof intersegment revenue	80.0	110.8	190.8
<i>(prior year)</i>	<i>(88.8)</i>	<i>(84.2)</i>	<i>(173.1)</i>
EBIT	46.5	1.1	47.6
<i>(prior year)</i>	<i>(121.9)</i>	<i>(37.1)</i>	<i>(159.1)</i>
Adjusted EBIT	52.4	8.6	61.0
<i>(prior year)</i>	<i>(119.9)</i>	<i>(35.7)</i>	<i>(155.6)</i>

In the Fashion Store segment, revenue decreased by 3.0% in HY1 2022 compared to the corresponding prior-year period which is mainly attributable to a comparatively weaker demand environment and ongoing selected supply shortages impacting availability. While the number of orders increased by a mid-single digit percentage compared to the corresponding prior-year period, the average basket size after returns decreased. The adjusted EBIT margin (EBIT margin) in the Fashion Store segment was at 0.0% (-0.6%) in the first six months of 2022 compared to 4.9% (4.7%) in the prior-year period.

The negative development of the Fashion Store EBIT margin is mainly attributable to a lower gross margin as well as an increased fulfillment cost ratio on the back of slower growth. The gross profit margin in the Fashion Store decreased primarily due to prolonged sales periods and price investment to reduce overstock levels. Fashion Store fulfillment costs in relation to revenue increased, primarily as a result of inflationary pressures and an increasing return rate, partly mitigated by the introduction of MOV in 15 additional countries and temporary fuel surcharges passed on to ZFS partners.

In the Offprice segment, revenue grew by 1.5% in HY1 2022 compared to the corresponding prior-year period. The development is the result of the challenging sourcing situation that has been ongoing since Q4 2021 in combination with the current macroeconomic environment. Main drivers were the offer quality and quantity and the overall slowdown in demand. In HY1 2022, the Offprice segment recorded an adjusted EBIT margin (EBIT margin) of 2.3% (1.7%), equivalent to a reduction of 5.5 percentage points (5.7 percentage points) compared to the prior-year period. The lower Offprice EBIT margin is likewise attributable to a gross margin decline due to prolonged sales periods and price investment coupled with an unfavorable development of the fulfillment cost ratio.

In all other segments total revenue increased by 12.2% during the first half of the year compared to the prior-year period, the main reason being the strong performance of Zalando Marketing Services (ZMS). The adjusted EBIT margin (EBIT margin) in all other segments increased by 4.7 percentage points (4.2 percentage points) in comparison to the first six months of 2021, resulting in an adjusted EBIT margin (EBIT margin) of 4.8% (3.5%) in the first six months of 2022.

(12.) Subsequent events

On July 1, 2022, Zalando acquired 86.83% of all shares of Titel Media GmbH, Berlin (“Highsnobiety”). Due to a signed call and put option agreement to acquire the remaining 13.17% of the shares over the next three years, Highsnobiety will be consolidated as a 100% subsidiary using the anticipated acquisition method. Highsnobiety comprises a publishing arm, creative consultancy and a curated commerce platform and is a global voice in the luxury space and in culture at large.

While continuing independent operations, Highsnobiety will act as a strategic and creative consultant, helping us to develop new inspiration-focused spaces and formats on our platform. Highsnobiety’s unique capabilities will play into our ambitions to weave inspirational experiences into the customer journey and create an exciting and engaging online environment for both consumers and brands.

The acquisition-date fair value of the total consideration to be transferred is expected to amount to EUR 161.0m. The purchase price for 86.83% of the shares in Highsnobiety comprises a cash payment of EUR 123.6m and an amount of EUR 35.0m paid by issuing 1,011,665 new no-par value bearer shares (using a contractually agreed base stock price of EUR 34.6). The call and put option exercise price for the remaining shares can total up to EUR 24.3m, of which an amount of EUR 21.9m depends on the length of the service period of the managing shareholder and thus will be recognized as remuneration expenses over the next three years; the remaining EUR 2.4m will be recognized as a contingent consideration that is part of the total consideration. Besides this consideration, we have committed to retention bonus payments for Highsnobiety’s current and future employees of up to EUR 14.2m within the next four years.

As the transaction took place after the reporting date, the purchase price allocation, out of which we expect the recognition of significant intangible assets (e.g. brand and customer relationships) including corresponding deferred tax liabilities, and the allocation of the expected significant goodwill had not yet been performed. Accordingly, further validated financial information is not available on the date the interim condensed consolidated financial statements are authorized for issue.

Berlin, August 3, 2022

The Management Board

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

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 condensed 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, 2022

The Management Board

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

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, 2022, 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, 2022

Ernst & Young GmbH
Wirtschaftsprüfungsgesellschaft

Ludwig Wirtschaftsprüfer [German Public Auditor]	Werling Wirtschaftsprüfer [German Public Auditor]
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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 significant 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 GMV per active customer

We define the average GMV per active customer as the average value of all merchandise sold to active customers after cancellations and returns and including VAT in the last 12 months of the reporting period.

Average orders per active customer

We define the average orders per active customer as the number of orders in the last 12 months of the reporting period, divided by the number of active customers.

Capex

The sum of the payments for investments in fixed assets and intangible assets excluding payments for the acquisition of companies.

EBIT

EBIT is short for earnings before interest and taxes.

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 investing activities (excluding investments in term 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.

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.

3.2 Financial calendar 2022

Financial calendar

Date	Event
Thursday, November 3	Publication of the third quarter results 2022

3.3 Imprint

Contact

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Disclaimer

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>.

