

Half-Year Report H1 2023



zalando

A large, bold, white 'H1' is centered on a vibrant blue background. The background is decorated with thin white curved lines. On the left side, there are vertical decorative elements: a purple-to-black gradient bar, a solid pink bar, and a black-and-white striped bar at the bottom.

Zalando at a glance

Key figures

	Q2 2023	Q2 2022	Change	H1 2023	H1 2022	Change
Key performance indicators						
Gross Merchandise Volume (GMV*) (in EUR m)	3,718.1	3,787.1	-1.8%	6,950.7	6,939.6	0.2%
Revenue (in EUR m)	2,556.3	2,623.0	-2.5%	4,811.9	4,828.1	-0.3%
Adjusted EBIT (in EUR m)**	144.8	77.4	87.0%	144.1	25.6	>100%
Adjusted EBIT margin (as %)	5.7	3.0	2.7pp	3.0	0.5	2.5pp
EBIT (in EUR m)	86.8	61.0	42.2%	60.6	-7.1	>100%
EBIT margin (as %)	3.4	2.3	1.1pp	1.3	-0.1	1.4pp
Capex (in EUR m)	-39.2	-74.5	-47.4%	-76.9	-140.8	-45.4%
Active customers (LTM***) (in millions)	50.5	49.3	2.4%	50.5	49.3	2.4%
Number of orders (in millions)	63.2	67.8	-6.8%	119.9	125.8	-4.7%
Average GMV per active customer (LTM***) (in EUR)	293.3	291.0	0.8%	293.3	291.0	0.8%
Average orders per active customer (LTM***)	5.0	5.2	-3.0%	5.0	5.2	-3.0%
Average basket size (LTM***) (in EUR)	58.1	55.9	3.9%	58.1	55.9	3.9%
Other key figures						
Net working capital (in EUR m)****	-114.2	-211.6	46.0%	-114.2	-211.6	46.0%
Equity ratio (as % of total assets)****	30.8	28.8	2.0pp	30.8	28.8	2.0pp
Cash flow from operating activities (in EUR m)	371.1	136.2	>100%	204.4	-325.3	>100%
Cash flow from investing activities (in EUR m)	-45.3	-77.5	41.5%	-83.5	-147.7	43.4%
Free cash flow (in EUR m)	330.7	56.2	>100%	125.8	-475.5	>100%
Cash and cash equivalents (in EUR m)	2,075.6	1,631.1	27.3%	2,075.6	1,631.1	27.3%
Average number of employees****	16,516	16,999	-2.8%	16,516	16,999	-2.8%
Basic earnings per share (in EUR)	0.22	0.05	>100%	0.07	-0.18	>100%
Diluted earnings per share (in EUR)	0.22	0.05	>100%	0.07	-0.18	>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 statement.

*) 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.

**) Adjusted EBIT is defined as EBIT before equity-settled share-based payment expenses, restructuring costs, acquisition-related expenses and non-operating one-time effects.

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

*****) As of Jun 30, 2023 and Dec 31, 2022 respectively

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Interim group management report



1.1 Information on our group

The statements made in the annual report 2022 on our business model, group structure and strategy of the group, management system, research and development, combined non-financial declaration and corporate governance statement in our group remain valid at the time this interim report was issued for publication.

Since April 1, 2023 the Management Board of Zalando SE consists of five members who are jointly responsible for managing the group, after Chief Business and Product Officer Jim Freeman left the company as planned at the end of his term of office.

1.2 Report on economic position

1.2.1 Macroeconomic and sector-specific environment in H1 2023

While lower energy prices are helping to lower headline inflation, core inflation is proving persistent, and the impact of higher interest rates is increasingly being felt across the economy. Furthermore, the impact of China's reopening on the global economy is weaker than expected. European growth is projected to slow this year to 0.9%, and to only recover modestly to 1.5% in 2024.¹

While the EU consumer confidence indicator has been steadily improving from its record low of -29.8 in September 2022, it is still below pre-pandemic levels at -17.2 at the end of June 2023.²

In Germany, the economy went into a technical recession with a GDP decline of 2.1% in the fourth quarter of 2022 and another decline of 1.2% in the first quarter of 2023, with a fall in private consumption being the major driver. The entry into recession was due to increased uncertainty, high energy prices and material shortages during 2022, which weighed on industry and investment.³ German GDP is up slightly in the second quarter of the year, as inflation eases, wages rise and employment grows. However, the impact on private consumption has not yet been significant.⁴

In the first half of 2023, German brick-and-mortar fashion sales recorded a strong increase of 17%⁵ year-on-year, while the German e-commerce sales in the clothing segment (apparel & shoes) sustained a 17.6%⁶ year-on-year decline in revenue to EUR 8.5bn, including VAT. This underlines the ongoing post-pandemic normalization trend between online and offline sales channels, as consumers return to shop in brick-and-mortar stores.⁷

¹ OECD Economic Outlook, June 2023

² European Commission, EU 27, June 2023

³ OECD Economic Outlook, June 2023

⁴ Deutsche Bundesbank: Monthly Report, June 2023

⁵ Textilwirtschaft revenue statistics, July 2023

⁶ BEVH press releases, April and July 2023

⁷ Bloomberg Intelligence: Europe Apparel Retail 2023 Outlook, July 2023

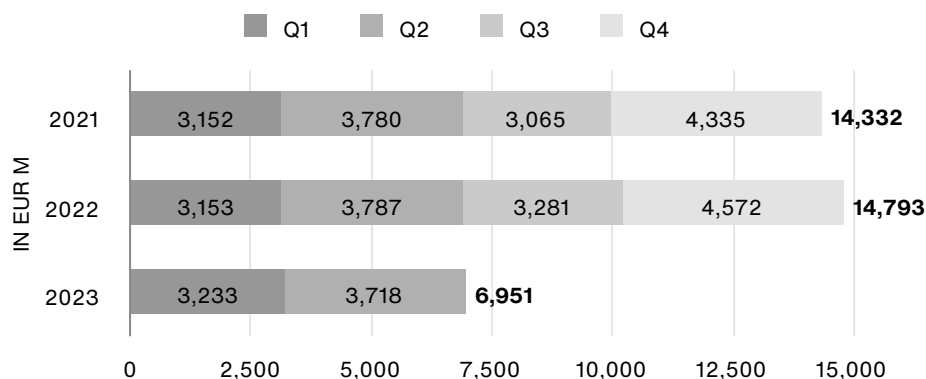
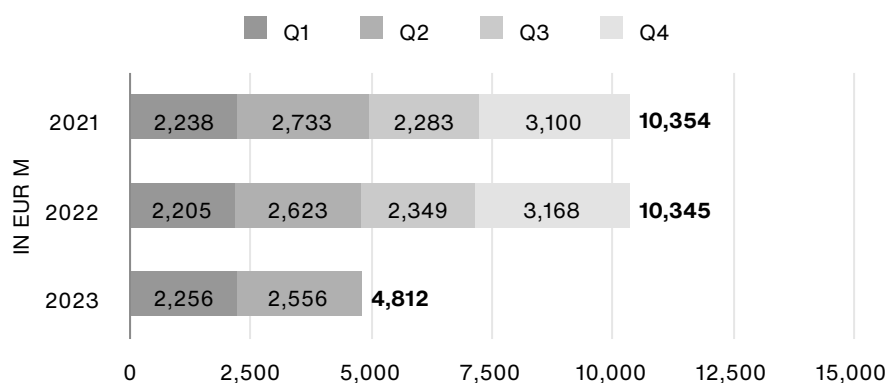
1.2.2 Financial performance of the group

Consolidated income statement H1 2023

IN EUR M	H1 2023	As % of revenue	H1 2022	As % of revenue	Change
GMV	6,950.7	144.4%	6,939.6	143.7%	0.7pp
Revenue	4,811.9	100.0%	4,828.1	100.0%	0.0pp
Cost of sales	-2,919.9	-60.7%	-2,898.5	-60.0%	-0.6pp
Gross profit	1,892.0	39.3%	1,929.6	40.0%	-0.6pp
Fulfillment costs	-1,219.4	-25.3%	-1,333.8	-27.6%	2.3pp
Marketing costs	-339.0	-7.0%	-377.0	-7.8%	0.8pp
Administrative expenses	-241.4	-5.0%	-233.6	-4.8%	-0.2pp
Other operating income	13.4	0.3%	11.8	0.2%	0.0pp
Other operating expenses	-45.0	-0.9%	-4.0	-0.1%	-0.9pp
EBIT	60.6	1.3%	-7.1	-0.1%	1.4pp
Share-based payments	41.3	0.9%	32.7	0.7%	0.2pp
Acquisition-related expenses	9.2	0.2%	0.0	0.0%	0.2pp
Restructuring costs	33.0	0.7%	0.0	0.0%	0.7pp
Adjusted EBIT	144.1	3.0%	25.6	0.5%	2.5pp

Consolidated income statement Q2 2023

IN EUR M	Q2 2023	As % of revenue	Q2 2022	As % of revenue	Change
GMV	3,718.1	145.4%	3,787.1	144.4%	1.1pp
Revenue	2,556.3	100.0%	2,623.0	100.0%	0.0pp
Cost of sales	-1,518.8	-59.4%	-1,546.7	-59.0%	-0.4pp
Gross profit	1,037.6	40.6%	1,076.4	41.0%	-0.4pp
Fulfillment costs	-624.7	-24.4%	-683.2	-26.0%	1.6pp
Marketing costs	-175.0	-6.8%	-208.8	-8.0%	1.1pp
Administrative expenses	-122.9	-4.8%	-126.3	-4.8%	0.0pp
Other operating income	8.0	0.3%	4.4	0.2%	0.1pp
Other operating expenses	-36.2	-1.4%	-1.5	-0.1%	-1.4pp
EBIT	86.8	3.4%	61.0	2.3%	1.1pp
Share-based payments	20.2	0.8%	16.4	0.6%	0.2pp
Acquisition-related expenses	4.8	0.2%	0.0	0.0%	0.2pp
Restructuring costs	33.0	1.3%	0.0	0.0%	1.3pp
Adjusted EBIT	144.8	5.7%	77.4	3.0%	2.7pp

GMV by quarter (2021-2023)⁸Revenue by quarter (2021-2023)⁹

At the end of H1 2023, we served 50.5 million active customers compared to 49.3 million active customers as of June 30, 2022, both measured on an LTM-basis. This represents an increase of 2.4%.

Despite continued normalization of e-commerce penetration and pressure on consumer's disposable income, we were able to keep our GMV development stable with 0.2% in the first half of 2023. This corresponds to an increase of EUR 11.1m and resulted in a total GMV of EUR 6,950.7m in H1 2023.

GMV per active customer increased slightly to EUR 293.3 (prior-year period: EUR 291.0). This increase was driven by a 3.9% rise in average basket size to EUR 58.1 (prior-year period: EUR 55.9) which compensated for the lower average orders per active customer of 5.0 at the end of H1 2023 (prior-year period: 5.2). All KPIs were calculated on the basis of the last twelve months.

⁸ The statements on the quarterly development of GMV are unaudited.
⁹ The statements on the quarterly development of revenue are unaudited.

Revenue remained stable compared to the prior-year period and reached EUR 4,811.9m. The difference between GMV and revenue development is inherent in our Partner Business model where selling prices are fully reflected in the GMV metric, while revenue only includes the commission income on the selling price. Furthermore, income from our platform services like Zalando Fulfillment Solutions (ZFS) and Zalando Marketing Services (ZMS) are considered in revenue but not in GMV.

As a result of our continued focus on cost efficiency we generated an improved adjusted EBIT (EBIT before expenses for equity-settled share-based payments, restructuring costs, acquisition-related expenses and non-operating one-time effects) of EUR 144.1m in H1 2023, (prior-year period: EUR 25.6m). Restructuring costs of EUR 33.0m relate to the reshaping program launched at the beginning of 2023 with the aim to reduce complexity in the organization and to increase Zalando's ability for speed of execution.¹⁰ The adjusted EBIT margin improved to 3.0% (prior-year period: 0.5%).

Cost of sales slightly increased by EUR 21.4m to EUR 2,919.9m in the reporting period based on a year-on-year revenue increase in Lounge and ZFS, partly offset by lower cost of sales in the Wholesale business. Our gross margin in H1 declined by 0.6 percentage points to 39.3% mainly due to the ongoing promotional market environment and a faster growing Lounge by Zalando business operating on lower gross margins.

Compared to the prior-year period, fulfillment costs as a percentage of revenue decreased by 2.3 percentage points due to continued efficiency measures and improved order economics.

Marketing costs decreased to EUR 339.0m with the marketing cost ratio ending 0.8 percentage points lower year-on-year at 7.0% of revenue. The decrease is the result of continued strong growth in Offprice, which operates with lower marketing investments, and the greater focus on improving return on investment.

Administrative expenses amount to EUR 241.4m (prior-year period: EUR 233.6m). The increase relates to an increase in share-based compensation as well as the inclusion of Highsnobiety, which was not part of the Zalando group in H1 2022. Administrative expenses as a percentage of revenue remained relatively stable at 5.0% (prior-year period: 4.8%).

Other operating expenses increased by EUR 41.0m to EUR 45.0m primarily due to the reshaping program. The related costs amount to EUR 33.0m and comprise expenses for severance and garden leave payments that will be incurred in the second half of 2023 as well as of already recorded consulting fees.

The financial result amounted to EUR -29.0m in the first six months of 2023 (prior-year period: EUR -23.6m). In addition, we recorded income taxes of EUR -13.4m (prior-year period: EUR -16.7m). Net income/loss for H1 2023 amounted to EUR 18.2m (prior-year period: EUR -47.3m).

¹⁰ Please refer to the corresponding press release: <https://corporate.zalando.com/en/company/update-zalando-co-ceos-company>.

1.2.3 Results by segment

Segment results of the group H1

IN EUR M	Fashion Store	Offprice	All other segments	Total	Reconciliation	Total group
GMV	6,007.5	943.3	0.0	6,950.7	0.0	6,950.7
<i>(prior year)</i>	<i>(6,175.8)</i>	<i>(763.9)</i>	<i>(0.0)</i>	<i>(6,939.6)</i>	<i>(0.0)</i>	<i>(6,939.6)</i>
Revenue	3,903.5	851.9	180.0	4,935.5	-123.6	4,811.9
<i>(prior year)</i>	<i>(4,108.0)*</i>	<i>(688.8)</i>	<i>(140.8)</i>	<i>(4,937.6)*</i>	<i>(-109.5)*</i>	<i>(4,828.1)</i>
thereof intersegment revenue	81.7	0.1	46.0	127.8	-127.8	0.0
<i>(prior year)</i>	<i>(74.6)*</i>	<i>(1.9)</i>	<i>(33.0)</i>	<i>(109.5)*</i>	<i>(-109.5)*</i>	<i>(0.0)</i>
Adjusted EBIT	91.4	50.0	6.2	147.6	-3.6	144.1
<i>(prior year)</i>	<i>(0.8)</i>	<i>(15.9)</i>	<i>(6.7)</i>	<i>(23.5)</i>	<i>(2.1)</i>	<i>(25.6)</i>
Share-based payments	32.9	5.7	2.7	41.3	0.0	41.3
<i>(prior year)</i>	<i>(26.3)</i>	<i>(4.5)</i>	<i>(1.9)</i>	<i>(32.7)</i>	<i>(0.0)</i>	<i>(32.7)</i>
Acquisition-related expenses	0.4	0.0	8.8	9.2	0.0	9.2
<i>(prior year)</i>	<i>(0.0)</i>	<i>(0.0)</i>	<i>(0.0)</i>	<i>(0.0)</i>	<i>(0.0)</i>	<i>(0.0)</i>
Restructuring costs	28.0	2.7	2.3	33.0	0.0	33.0
<i>(prior year)</i>	<i>(0.0)</i>	<i>(0.0)</i>	<i>(0.0)</i>	<i>(0.0)</i>	<i>(0.0)</i>	<i>(0.0)</i>
EBIT	30.1	41.6	-7.6	64.2	-3.6	60.6
<i>(prior year)</i>	<i>(-25.5)</i>	<i>(11.4)</i>	<i>(4.9)</i>	<i>(-9.2)</i>	<i>(2.1)</i>	<i>(-7.1)</i>

*) Prior-year figures adjusted, see below for more information

Financial information for the Fashion Store segment is broken down into the regions DACH and Rest of Europe as follows:

Fashion Store results by region H1

IN EUR M	DACH	Rest of Europe	Fashion Store
GMV	2,787.7	3,219.8	6,007.5
<i>(prior year)</i>	<i>(2,902.7)</i>	<i>(3,273.0)</i>	<i>(6,175.8)</i>
Revenue	1,730.7	2,172.9	3,903.5
<i>(prior year)</i>	<i>(1,849.6)*</i>	<i>(2,258.4)*</i>	<i>(4,108.0)*</i>
Adjusted EBIT	113.5	-22.1	91.4
<i>(prior year)</i>	<i>(74.5)</i>	<i>(-73.7)</i>	<i>(0.8)</i>
EBIT	86.6	-56.4	30.1
<i>(prior year)</i>	<i>(63.5)</i>	<i>(-89.0)</i>	<i>(-25.5)</i>

*) Prior-year figures adjusted, see below for more information

The condensed segment results for Q2 2023 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
GMV	3,228.4	489.7	0.0	3,718.1	0.0	3,718.1
<i>(prior year)</i>	<i>(3,370.6)</i>	<i>(416.4)</i>	<i>(0.0)</i>	<i>(3,787.1)</i>	<i>(0.0)</i>	<i>(3,787.1)</i>
Revenue	2,090.9	436.4	97.1	2,624.5	-68.1	2,556.3
<i>(prior year)</i>	<i>(2,229.0)*</i>	<i>(376.2)</i>	<i>(81.9)</i>	<i>(2,687.2)*</i>	<i>(-64.1)*</i>	<i>(2,623.0)</i>
thereof intersegment revenue	44.6	0.0	25.4	70.1	-70.1	0.0
<i>(prior year)</i>	<i>(43.1)*</i>	<i>(1.3)</i>	<i>(19.7)</i>	<i>(64.1)*</i>	<i>(-64.1)*</i>	<i>(0.0)</i>
Adjusted EBIT	110.6	25.4	7.7	143.7	1.1	144.8
<i>(prior year)</i>	<i>(61.0)</i>	<i>(9.5)</i>	<i>(7.6)</i>	<i>(78.1)</i>	<i>(-0.6)</i>	<i>(77.4)</i>
Share-based payments	16.0	2.9	1.3	20.2	0.0	20.2
<i>(prior year)</i>	<i>(13.4)</i>	<i>(2.2)</i>	<i>(0.8)</i>	<i>(16.4)</i>	<i>(0.0)</i>	<i>(16.4)</i>
Acquisition-related expenses	0.3	0.0	4.5	4.8	0.0	4.8
<i>(prior year)</i>	<i>(0.0)</i>	<i>(0.0)</i>	<i>(0.0)</i>	<i>(0.0)</i>	<i>(0.0)</i>	<i>(0.0)</i>
Restructuring costs	28.0	2.7	2.3	33.0	0.0	33.0
<i>(prior year)</i>	<i>(0.0)</i>	<i>(0.0)</i>	<i>(0.0)</i>	<i>(0.0)</i>	<i>(0.0)</i>	<i>(0.0)</i>
EBIT	66.3	19.7	-0.4	85.6	1.1	86.8
<i>(prior year)</i>	<i>(47.6)</i>	<i>(7.2)</i>	<i>(6.8)</i>	<i>(61.7)</i>	<i>(-0.6)</i>	<i>(61.0)</i>

*) Prior-year figures adjusted, see below for more information

Financial information for the Fashion Store segment is broken down into the regions DACH and Rest of Europe as follows:

Fashion Store results by region Q2

IN EUR M	DACH	Rest of Europe	Fashion Store
GMV	1,515.1	1,713.3	3,228.4
<i>(prior year)</i>	<i>(1,599.2)</i>	<i>(1,771.4)</i>	<i>(3,370.6)</i>
Revenue	938.5	1,152.4	2,090.9
<i>(prior year)</i>	<i>(1,009.7)*</i>	<i>(1,219.4)*</i>	<i>(2,229.0)*</i>
Adjusted EBIT	81.2	29.4	110.6
<i>(prior year)</i>	<i>(52.4)</i>	<i>(8.6)</i>	<i>(61.0)</i>
EBIT	61.9	4.3	66.3
<i>(prior year)</i>	<i>(46.5)</i>	<i>(1.1)</i>	<i>(47.6)</i>

*) Prior-year figures adjusted, see below for more information

GMV in the Fashion Store segment decreased by 2.7% in H1 2023. The decrease is attributable to the continuing normalization between online and offline retail channel usage in an environment of improved but still low consumer sentiment. Revenue in the Fashion Store segment decreased by 5.0% in the first six months of 2023, 2.3% below the GMV growth rate, as the Partner Business share continued to grow, increasing its share of Fashion Store GMV to 38.7% (prior-year period: 31.6%).

H1 2022 revenue for the Fashion Store segment was adjusted by EUR -257.3m as internal stock transfers and services are no longer reported as Fashion Store segment revenues but netted with the corresponding cost lines and thus reported on a net basis starting Q1 2023. This change follows a corresponding adjustment in the internal steering of our segments to focus more on the contribution of our segments to the group figures. The change does not impact group or Offprice GMV, revenue, gross margin or adjusted EBIT, nor Fashion Store GMV and adjusted EBIT.

Adjusted EBIT in the Fashion Store segment reached EUR 91.4m compared to EUR 0.8m in the prior year. The adjusted EBIT margin in the Fashion Store segment was at 2.3% in the first half of 2023 (prior-year period: 0.0%). The improvement is a result of lower fulfillment and lower marketing costs.

The Offprice segment continues to show a strong development with revenue growth of 23.7% year-on-year to EUR 851.9m as we successfully captured demand through our Lounge by Zalando proposition. The Offprice segment recorded an adjusted EBIT of EUR 50.0m in the first six months of 2023 compared to EUR 15.9m in H1 2022, with an adjusted EBIT margin of 5.9% up from 2.3% in the prior-year period. As in the Fashion Store segment the higher Offprice adjusted EBIT margin is attributable to lower fulfillment and marketing costs.

In all other segments (including ZMS), revenue increased by 27.9% to EUR 180.0m, primarily driven by the inclusion of Highsnobiety which has been consolidated since Q3 2022. In H1 2023, adjusted EBIT reached EUR 6.2m (prior-year period: EUR 6.7m) and the adjusted EBIT margin reached 3.4% (prior-year period: 4.8%).

1.2.4 Cash flows

The group's condensed statement of cash flows is presented in the following table:

Condensed statement of cash flows

IN EUR M	Q2 2023	Q2 2022	H1 2023	H1 2022
Cash flow from operating activities	371.1	136.2	204.4	-325.3
Cash flow from investing activities	-45.3	-77.5	-83.5	-147.7
Cash flow from financing activities	-32.0	-28.4	-61.6	-187.9
Net change in cash and cash equivalents from cash relevant transactions	293.7	30.4	59.2	-660.8
Change in cash and cash equivalents due to exchange rate movements	-3.0	5.9	-8.4	4.0
Cash and cash equivalents at the beginning of the period	1,784.8	1,594.8	2,024.8	2,287.9
Cash and cash equivalents at the end of the period	2,075.6	1,631.1	2,075.6	1,631.1
Free cash flow	330.7	56.2	125.8	-475.5

In the first half of 2023, we generated a positive cash flow from operating activities of EUR 204.4m (prior-year period: EUR -325.3m), which was mainly driven by our operating income (considering that our net income comprises non-cash expenses like depreciation, change of provisions and share-based payments). Additional drivers were the development of other assets and liabilities, mainly resulting from the collection of VAT receivables in Poland, which was partly compensated by our net working capital.

In comparison to the first half of 2022 the significant improvement of EUR 529.6m resulted primarily from the positive change in the development of our net working capital, our operating income as well as our other assets and liabilities.

Cash flow from investing activities is mainly impacted by capex, amounting to EUR 76.9m (prior-year period: EUR 140.8m), which primarily consisted of investments in logistics infrastructure related to the fulfillment centers in Poland, Germany and the Netherlands, as well as capex in internally developed software in H1 2023. The lower capex compared to the prior-year period reflects shifts in investments to the second half of the year 2023 and beyond, as well as an adaptation to the current economic environment.

As a result, our free cash flow increased by EUR 601.2m from EUR -475.5m to EUR 125.8m in the first half of the year compared to the prior-year period.

In H1 2023, the cash flows from financing activities predominately consist of payments of the principal portion of lease liabilities amounting to EUR 63.3m (prior-year period: EUR 49.5m). The difference of EUR 126.3m compared to the prior-year period is attributable to cash outflows of EUR 136.0m for the repurchase of treasury shares in the prior-year period.

Overall, we were able to improve net cash and cash equivalents from cash relevant transactions by EUR 720.1m year-on-year. In addition, cash and cash equivalents increased by EUR 50.8m during the first half of the year compared to year end 2022 and remained strong at EUR 2,075.6m as of June 30, 2023 (December 31, 2022: EUR 2,024.8m).

1.2.5 Financial position

The group's financial position is presented in the following condensed statement of financial position:

Assets

IN EUR M	Jun 30, 2023		Dec 31, 2022		Change	
Non-current assets	2,373.6	32.0%	2,342.3	30.7%	31.3	1.3%
Current assets	5,040.1	68.0%	5,283.8	69.3%	-243.7	-4.6%
Total assets	7,413.7	100.0%	7,626.1	100.0%	-212.4	-2.8%

Equity and liabilities

IN EUR M	Jun 30, 2023		Dec 31, 2022		Change	
Equity	2,281.5	30.8%	2,199.2	28.8%	82.3	3.7%
Non-current liabilities	1,773.4	23.9%	1,760.0	23.1%	13.4	0.8%
Current liabilities	3,358.8	45.3%	3,666.9	48.1%	-308.1	-8.4%
Total equity and liabilities	7,413.7	100.0%	7,626.1	100.0%	-212.4	-2.8%

Compared to December 31, 2022, our total assets decreased by 2.8% to EUR 7,413.7m.

The statement of financial position is dominated by property, plant and equipment, net working capital as well as cash and cash equivalents.

In the first half year of 2023, the development of non-current assets resulted from additions to property, plant and equipment amounting to EUR 79.2m (prior-year period: EUR 109.2m), primarily relating to our fulfillment centers in France and Poland and partially offset by monthly depreciation. Right-of-use assets had a carrying amount of EUR 694.7m as of June 30, 2023 (December 31, 2022: EUR 679.3m). This 2.3% increase is mainly driven by the commencement of new lease contracts for a warehouse in Poland and two new outlet stores in Germany entered into in Q2 2023.

The development of current assets was driven by a decrease in our other non-financial assets and inventories. During the first half year of 2023, other non-financial assets decreased by 31.2%, primarily due to the collection of VAT receivables in Poland. The decrease in inventories by 4.4% to EUR 1,730.1m was due to more conservative inbounding in Q2 2023.

Equity increased by 3.7% to EUR 2,281.5m as of June 30, 2023 (December 31, 2022: EUR 2,199.2m) primarily due to share-based compensation effects and our positive total

comprehensive income. The equity ratio increased from 28.8% at the beginning of the year to 30.8% as of June 30, 2023.

While our non-current liabilities remained stable, the development of our current liabilities was mainly driven by trade payables and similar liabilities, which decreased by EUR 226.7m to EUR 2,707.4m as of June 30, 2023 due to higher stock inbound levels at the end of last year. As of June 30, 2023, suppliers' claims against Zalando, totaling EUR 681.2m, were transferred to various factoring providers (December 31, 2022: EUR 794.2m). These balances were recognized under current liabilities, i.e. trade payables and similar liabilities. In addition, other financial liabilities decreased by EUR 63.7m to EUR 189.4m as of June 30, 2023, mainly due to financial instruments. This was partially offset by the impact of recognizing a provision of EUR 28.3m in Q2 2023 for severance and garden leave expenses resulting from the reshaping program.

Net working capital, consisting of inventories and trade and other receivables less trade payables and similar liabilities, rose from EUR -211.6m as of December 31, 2022 to EUR -114.2m as of June 30, 2023. The development is mainly driven by a decrease in trade payables and similar liabilities as described above.

Overall assessment

The Management Board is satisfied with the business development in the first half of 2023. Given the ongoing challenging macroeconomic environment, we consider 2023 as a year of transition in which we pursue our ambition to deliver profitable growth and to continue to make selective investments through the cycle.

Despite an overall weak fashion e-commerce development with negative growth in the first half of 2023, Zalando reported stable GMV and revenue. Driven by our focus on profitability, our adjusted EBIT increased from EUR 25.6m in H1 2022 to EUR 144.1m in H1 2023, improving the adjusted EBIT margin from 0.5% to 3.0%. Overall Zalando can look back on a satisfactory first half of 2023.

1.2.6 Employees

The average headcount decreased by 483 employees from 16,999 employees as of December 31, 2022 to 16,516 employees as of June 30, 2023.

1.3 Risk and opportunity report

2023 started with some positive signs of improved but still low customer sentiment. However, persistent core inflation continues to deteriorate discretionary consumer spending, causing shifts in consumer patterns to lower price points and resulting in a challenging competitive environment. Moreover, climate change may impact our supply situation and our commercial performance in the affected regions.

Information security remains one of our top priorities as we see an increase in cyber attacks due to the strained geopolitical situation. Furthermore, we constantly need to adapt and enhance our digital user experience to keep the web shop and App in tune with the market environment and customer trends by incorporating innovative features to stay relevant in the fashion sector and ultimately become our customers' starting point for fashion.

Looking ahead, we are closely monitoring the regulatory landscape at EU level for which we see stricter and more complex requirements emerging, especially in the areas of sustainability, GDPR and ePrivacy, either directly or indirectly impacting Zalando's business as well as increasing scrutiny from customers and regulators to adhere to such regulation.

In spite of the challenges, the risk landscape described in the risk and opportunity section in the annual report 2022 remains valid and the output of the H1 2023 risk assessment indicates that neither single critical risks nor the total risk exposure might threaten Zalando overall as a going concern.

1.4 Outlook

1.4.1 Future macroeconomic and industry-specific situation

Economic activity in the Euro Area declined slightly at the beginning of the year, but has remained relatively resilient to the large negative supply shocks that have been affecting the economy. GDP growth in the Euro Area rebounded in the second quarter of the year, after a decrease in the first quarter of the year of 0.1%, and to remain solid during the second half of the year, as the impact of supply bottlenecks and energy shocks wanes and real income recovers, despite a worsening outlook for manufacturing. As inflation declines and wages rise in the context of a buoyant labour market, real disposable income is set to grow again in the second quarter. As a result, private consumption is expected to rebound also in the second half of the year, in line with declining inflation and a recovery in consumer confidence, amid broadly neutral fiscal support. Beyond the short term, as inflation and uncertainty recede further and real incomes improve, consumption will continue to recover, growing slightly faster than real disposable income, as savings normalize further, albeit slowly.¹¹

The table below shows the percentage changes of private consumption for the period 2020 through 2024.

Private consumption growth per country

	Historical data			Forecast projection	
	2020	2021	2022	2023	2024
Euro Area	-7.8	3.7	4.4	0.2	1.5
Germany	-5.9	0.4	4.9	-1.4	1.6
Switzerland	-4.2	1.7	4.0	1.4	0.9
Spain	-12.2	6.0	4.4	0.5	2.0
France	-6.7	5.2	2.2	0.3	1.4
Italy	-10.4	4.7	4.6	0.9	0.9

Source: OECD Household spending, June 2023

Inflation in Europe is proving to be more persistent than previously expected despite falling energy prices and easing supply bottlenecks. With energy inflation set to become increasingly negative throughout 2023 and food inflation moderating, headline inflation is expected to continue to decline to around 3% in the last quarter of the year. Overall, headline inflation is expected to decrease from 8.4% in 2022 to an average of 5.4% in 2023, 3.0% in 2024 and 2.2% in 2025.¹²

In terms of e-commerce in Germany, the pessimistic business expectations of e-commerce players and the persistently poor economic data in Germany imply low expectations for an improvement in the business situation in the second half of the year.

¹¹ ECB staff macroeconomic projections for the Euro Area, June 2023

¹² ECB staff macroeconomic projections for the Euro Area, June 2023

However, for the coming years, online penetration is expected to increase again and we remain convinced that Zalando is well positioned to continue on its profitable growth path going forward.

1.4.2 Guidance

The first half of 2023 is characterized by a stable top line performance with GMV of 0.2% and revenue of -0.3%. As a result we are refining our GMV and revenue guidance to the lower half of our initial guidance ranges of 1% to 7% for GMV and -1% to 4% for revenue respectively.

At the same time, our adjusted EBIT improved year-on-year and reached EUR 144.1m as efficiency measures and cost savings begin to take effect. For the full year 2023, we have refined our guidance range and now expect adjusted EBIT of EUR 300m – EUR 350m.

In light of the current macroeconomic situation and slowing growth we have adjusted the speed of our investments. In the first half of 2023, capex amounted to EUR 76.9m. We therefore see our capex guidance coming in at the low end of our target range of EUR 300m – EUR 380m.

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 2023, the economic condition of the group remains solid.

Berlin, August 2, 2023

The Management Board

Robert Gentz	David Schneider	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 2.5.2	Q2 2023	Q2 2022	H1 2023	H1 2022
Revenue	(1.)	2,556.3	2,623.0	4,811.9	4,828.1
Cost of sales	(2.)	-1,518.8	-1,546.7	-2,919.9	-2,898.5
Gross profit		1,037.6	1,076.4	1,892.0	1,929.6
Fulfillment costs	(3.)	-624.7	-683.2	-1,219.4	-1,333.8
Marketing costs	(3.)	-175.0	-208.8	-339.0	-377.0
Administrative expenses		-122.9	-126.3	-241.4	-233.6
Other operating income		8.0	4.4	13.4	11.8
Other operating expenses	(12.)	-36.2	-1.5	-45.0	-4.0
Earnings before interest and taxes (EBIT)		86.8	61.0	60.6	-7.1
Interest and similar income		9.1	1.3	15.0	2.5
Interest and similar expenses		-21.8	-14.2	-41.1	-28.7
Other financial result		9.2	10.7	-2.9	2.6
Financial result		-3.4	-2.2	-29.0	-23.6
Earnings before taxes (EBT)		83.3	58.8	31.6	-30.6
Income taxes	(4.)	-26.7	-44.8	-13.4	-16.7
Net income/loss for the period		56.6	14.0	18.2	-47.3
Net income/loss for the period as percentage of revenue		2.2%	0.5%	0.4%	-1.0%
Basic earnings per share (in EUR)	(5.)	0.22	0.05	0.07	-0.18
Diluted earnings per share (in EUR)	(5.)	0.22	0.05	0.07	-0.18

Consolidated statement of other comprehensive income

IN EUR M	Q2 2023	Q2 2022	H1 2023	H1 2022
Net income/loss for the period	56.6	14.0	18.2	-47.3
Items recycled to profit or loss in subsequent periods				
Effective portion of gains/losses from cash flow hedges, net of tax	-1.1	33.4	12.9	26.2
Exchange differences on translation of foreign financial statements	15.6	-2.4	15.0	-3.8
Other comprehensive income/loss	14.5	31.0	27.9	22.5
Total comprehensive income/loss	71.2	45.0	46.1	-24.8

2.2 Consolidated statement of financial position

Consolidated statement of financial position – assets

IN EUR M	Notes 2.5.2	Jun 30, 2023	Dec 31, 2022
Non-current assets			
Intangible assets		410.8	414.1
Property, plant and equipment		1,162.1	1,145.5
Right-of-use assets	(8.)	694.7	679.3
Financial assets		85.5	85.2
Non-financial assets		3.8	4.2
Investments accounted for using the equity method		8.6	8.3
Deferred tax assets	(4.)	8.1	5.7
		2,373.6	2,342.3
Current assets			
Inventories	(6.)	1,730.1	1,809.5
Trade and other receivables	(7.)	863.2	913.0
Other financial assets		56.1	78.6
Other non-financial assets	(9.)	315.1	457.9
Cash and cash equivalents	(10.)	2,075.6	2,024.8
		5,040.1	5,283.8
Total assets		7,413.7	7,626.1

Consolidated statement of financial position – equity and liabilities

IN EUR M	Notes 2.5.2	Jun 30, 2023	Dec 31, 2022
Equity			
Issued capital		259.6	259.0
Capital reserves		1,279.2	1,237.8
Other reserves		-3.4	-25.4
Retained earnings		746.1	727.8
	(11.)	2,281.5	2,199.2
Non-current liabilities			
Provisions		89.4	85.3
Lease liabilities	(8.)	675.4	670.1
Convertible bonds		928.0	916.9
Other financial liabilities		5.7	12.1
Other non-financial liabilities		5.5	4.6
Deferred tax liabilities	(4.)	69.4	71.0
		1,773.4	1,760.0
Current liabilities			
Provisions	(12.)	28.3	0.0
Lease liabilities	(8.)	131.3	129.7
Trade payables and similar liabilities	(13.)	2,707.4	2,934.1
Prepayments received	(13.)	40.9	49.2
Income tax liabilities		20.7	24.8
Other financial liabilities	(14.)	189.4	253.1
Other non-financial liabilities		240.9	276.0
		3,358.8	3,666.9
Total equity and liabilities		7,413.7	7,626.1

2.3 Consolidated statement of changes in equity

Consolidated statement of changes in equity 2023

IN EUR M	Notes 2.5.2	Issued capital	Capital reserves
As of Jan 1, 2023		259.0	1,237.8
Net income/loss for the period		0.0	0.0
Other comprehensive income/loss		0.0	0.0
Total comprehensive income/loss		0.0	0.0
Capital increase		0.1	1.2
Issue of treasury shares		0.5	-0.1
Share-based payments	(11.)	0.0	41.3
Deferred taxes from share-based payments		0.0	-1.1
Removement of cash flow hedge reserve to inventories		0.0	0.0
As of Jun 30, 2023		259.6	1,279.2

Consolidated statement of changes in equity 2022

IN EUR M	Notes 2.5.2	Issued capital	Capital reserves
As of Jan 1, 2022		258.7	1,285.9
Net income/loss for the period		0.0	0.0
Other comprehensive income/loss		0.0	0.0
Total comprehensive income/loss		0.0	0.0
Capital increase		0.4	0.3
Issue of treasury shares		0.3	0.0
Repurchase of treasury shares		-2.2	-134.0
Share-based payments	(11.)	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 2023

Other reserves			Retained earnings	Shareholders of Zalando SE	Non-controlling interest	Total
Cash flow hedges	Currency translation					
-14.4	-11.0	727.8	2,199.2	0.0	2,199.2	
0.0	0.0	18.2	18.2	0.0	18.2	
12.9	15.0	0.0	27.9	0.0	27.9	
12.9	15.0	18.2	46.1	0.0	46.1	
0.0	0.0	0.0	1.3	0.0	1.3	
0.0	0.0	0.0	0.4	0.0	0.4	
0.0	0.0	0.0	41.3	0.0	41.3	
0.0	0.0	0.0	-1.1	0.0	-1.1	
-5.8	0.0	0.0	-5.8	0.0	-5.8	
-7.4	4.0	746.1	2,281.5	0.0	2,281.5	

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	

2.4 Consolidated statement of cash flows

Consolidated statement of cash flows

IN EUR M		Notes 2.5.2	Q2 2023	Q2 2022	H1 2023	H1 2022
1	Net income/loss for the period		56.6	14.0	18.2	-47.3
2 +	Non-cash expenses from share-based payments		20.2	16.4	41.3	32.7
3 +	Depreciation of property, plant and equipment, right-of-use assets and amortization of intangible assets		75.9	66.5	153.2	128.2
4 +/-	Income taxes	(4.)	26.7	44.8	13.4	16.7
5 -	Income taxes paid, less refunds		-21.4	-13.2	-53.5	-34.3
6 +/-	Increase/decrease in provisions	(12.)	29.1	0.0	31.7	0.0
7 -/+	Other non-cash income/expenses		7.1	0.0	18.1	-1.7
8 +/-	Decrease/increase in inventories	(6.)	328.1	194.2	79.4	-211.1
9 +/-	Decrease/increase in trade and other receivables	(7.)	-125.6	-59.8	49.8	32.3
10 +/-	Increase/decrease in trade payables and similar liabilities	(13.)	-110.5	-180.9	-253.8	-200.9
11 +/-	Increase/decrease in other assets/liabilities	(9.), (14.)	85.1	54.2	106.6	-39.8
12 =	Cash flow from operating activities	(15.)	371.1	136.2	204.4	-325.3
13 -	Cash paid for investments in property, plant and equipment		-22.4	-57.5	-40.1	-101.0
14 -	Cash paid for investments in intangible assets		-16.8	-17.0	-36.8	-39.7
15 -	Cash paid for acquisition of shares in associated companies and subsidiaries less cash acquired		-1.2	-5.5	-1.7	-9.4
16 +/-	Change in restricted cash		-4.9	2.5	-4.9	2.5
17 =	Cash flow from investing activities	(15.)	-45.3	-77.5	-83.5	-147.7
18 +	Cash received from capital increases by the shareholders and stock option exercises less transaction costs		1.3	0.5	1.7	0.9
19 -	Repurchase of treasury shares		0.0	0.0	0.0	-136.0
20 -	Cash repayments of loans and similar payments		0.0	-3.3	0.0	-3.3
21 -	Cash payments for the principal portion of lease liabilities		-33.4	-25.6	-63.3	-49.5
22 =	Cash flow from financing activities	(15.)	-32.0	-28.4	-61.6	-187.9
23 =	Net change in cash and cash equivalents from cash relevant transactions		293.7	30.4	59.2	-660.8
24 +/-	Change in cash and cash equivalents due to exchange rate movements		-3.0	5.9	-8.4	4.0
25 +	Cash and cash equivalents at the beginning of the period		1,784.8	1,594.8	2,024.8	2,287.9
26 =	Cash and cash equivalents at the end of the period	(10.)	2,075.6	1,631.1	2,075.6	1,631.1
	Free cash flow	(15.)	330.7	56.2	125.8	-475.5

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, 2023 were prepared in accordance with IAS 34 Interim Financial Reporting in conjunction with IAS 1 Presentation of Financial Statements as adopted by the EU. 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, 2022.

Accounting and measurement principles

The accounting policies and recognition and measurement methods applied in the consolidated financial statements as of December 31, 2022 have been applied without change except for Amendments to IAS 12 International Tax Reform - Pillar Two Model Rules which were issued by the IASB in May 2023 and which must be applied immediately and retrospectively.

The amendments clarify the application of IAS 12 Income Taxes to income taxes arising from tax law enacted or substantively enacted to implement the Organisation for Economic Co-operation and Development (OECD)/G20 Inclusive Framework on Base Erosion and Profit Shifting (BEPS) Pillar Two model rules (Pillar Two income taxes). As an exception to the requirements in IAS 12, it requires that an entity neither recognize nor disclose information about deferred tax assets and liabilities related to Pillar Two income taxes. Because the amendments have not yet been adopted by the EU, we developed an accounting policy in accordance with IAS 8.10 to apply this exception.

The first-time application of amendments to IFRS accounting standards or interpretations as issued by the IASB and applicable in the EU in fiscal year 2023 did not have any material impact on the interim condensed consolidated financial statements.

Zalando launched the reshaping program at the beginning of 2023 with the aim to reduce complexity in the organization and to increase Zalando’s ability for speed of execution. The costs in accordance with IAS 37.70 et seq. related to a material group-wide reshaping program are reported in other operating expenses. Further information can be found in [2.5.2 \(12.\) Provisions](#).

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 57 as of December 31, 2022 to 58 as of June 30, 2023.

2.5.2 Selected notes to the consolidated statement of comprehensive income and statement of financial position

(1.) Revenue

Revenue

IN EUR M	Q2 2023	Q2 2022	H1 2023	H1 2022
Revenue from the sale of merchandise	2,059.0	2,219.1	3,864.5	4,091.1
Revenue from other services	497.4	403.9	947.4	737.0
Total	2,556.3	2,623.0	4,811.9	4,828.1

Revenue from the sale of merchandise comprises sales of merchandise to our customers within the Wholesale and Offprice business. Revenue from other services mainly comprises revenues from the Partner Program, Zalando Payment Services, Zalando Marketing Services, Zalando Fulfillment Solutions, Highsnobiety as well as shipping fees.

Further information on revenue can be found in [2.5.3 \(2.\) Segment reporting](#).

(2.) Cost of sales

Cost of sales

IN EUR M	Q2 2023	Q2 2022	H1 2023	H1 2022
Non-personnel costs	1,442.5	1,485.0	2,767.3	2,770.3
Personnel costs	76.2	61.7	152.6	128.2
Total	1,518.8	1,546.7	2,919.9	2,898.5

Cost of sales mainly consists of cost of materials, personnel costs, allowances on inventories, third-party services and infrastructure costs. The cost of materials amounts to EUR 2,312.9m for H1 2023 (prior-year period: EUR 2,338.0m).

Cost of sales

IN EUR M	Q2 2023	Q2 2022	Change	H1 2023	H1 2022	Change
Total	1,518.8	1,546.7	-27.9	2,919.9	2,898.5	21.4
thereof historical acquisition costs	1,343.1	1,373.7	-30.6	2,564.3	2,581.0	-16.7
thereof allowances	11.6	19.4	-7.8	15.8	21.7	-5.9
thereof other	164.0	153.5	10.5	339.8	295.8	44.0

For H1 2023, the increase in other cost of sales is mainly related to our Partner Program, Zalando Fulfillment Solutions business and Zalando Marketing Services business as well as our initial consolidation of Highsnobiety.

(3.) Selling and distribution costs

Selling and distribution costs

IN EUR M	Q2 2023	Q2 2022	H1 2023	H1 2022
Non-personnel costs	673.0	776.4	1,317.1	1,486.4
Personnel costs	126.7	115.5	241.2	224.3
Total	799.7	891.9	1,558.4	1,710.8

In H1 2023 selling and distribution costs comprise fulfillment costs of EUR 1,219.4m (prior-year period: EUR 1,333.8m) and marketing costs of EUR 339.0m (prior-year period: EUR 377.0m).

The non-personnel costs predominately contain office and warehouse expenses, depreciation as well as legal and advisory expenses.

(4.) Income taxes

Income taxes

IN EUR M	Q2 2023	Q2 2022	H1 2023	H1 2022
Deferred taxes	-10.8	-32.7	8.2	-1.2
Current taxes	-15.8	-12.1	-21.6	-15.5
Total	-26.7	-44.8	-13.4	-16.7

Income taxes include income tax expense for prior years of EUR 0.9m. Besides that, we recognized deferred tax assets on negative results in the first half of the year 2023.

Income tax expense is recognized based on the estimate of the weighted average annual income tax rate for the full fiscal year. The tax rate for the interim period ended June 30, 2023 is 42.4% (comparative period ended June 30, 2022: -54.4%). The difference to the comparative period is the result of the decrease of deferred tax assets on options granted under our share-based payment programs in the comparative period.

(5.) Earnings per share

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

Basic Earnings per Share (EPS)

	Q2 2023	Q2 2022	H1 2023	H1 2022
Net income/loss for the period attributable to the shareholders of Zalando SE (in EUR m)	56.6	14.0	18.2	-47.3
Basic weighted average number of shares (in millions)	259.4	257.1	259.2	257.1
Total (in EUR)	0.22	0.05	0.07	-0.18

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

Diluted Earnings per Share (EPS)

	Q2 2023	Q2 2022	H1 2023	H1 2022
Net income/loss for the period attributable to the shareholders of Zalando SE (in EUR m)	56.6	14.0	18.2	-47.3
Diluted weighted average number of shares (in millions)	261.6	258.5	261.6	257.1
Total (in EUR)	0.22	0.05	0.07	-0.18

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 in the prior-year period, this means that options granted within the scope of LTI 2021 and LTI 2023 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 likewise excluded from the calculation.

(6.) Inventories

Inventories of merchandise, mainly consisting of footwear and textiles, are presented in the following table:

Inventories			
IN EUR M	Jun 30, 2023	Dec 31, 2022	Change
Inventories	1,730.1	1,809.5	-79.4
thereof historical acquisition costs	2,063.5	2,127.0	-63.6
thereof allowances	-333.3	-317.6	-15.8

In the first half year of 2023 inventories decreased by 4.4% to EUR 1,730.1m (December 31, 2022: EUR 1,809.5m) due to more conservative inbounding. The increase in allowances by EUR 15.8m is due to the respective aging structure and composition.

(7.) Trade and other receivables

As of the reporting date, trade and other receivables comprise of the following:

Trade and other receivables			
IN EUR M	Jun 30, 2023	Dec 31, 2022	Change
Trade and other receivables	863.2	913.0	-49.8
thereof trade receivables	637.9	759.9	-122.0
thereof other receivables	225.3	153.1	72.2

Trade receivables are due from customers of Zalando SE, whereas other receivables are due from customers of our partners for sales concluded in the Fashion Store. The entire portfolio of receivables was reduced by bad debt allowances.

The accumulated bad debt allowances amount to EUR 103.1m as of June 30, 2023 (December 31, 2022: EUR 106.6m).

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

Right-of-use assets have a carrying amount of EUR 694.7m as of June 30, 2023 and lease liabilities amount to EUR 806.7m as of June 30, 2023, thereof EUR 675.4m non-current and EUR 131.3m current. The development predominately resulted from the commencement of new lease contracts for a warehouse in Poland and two new outlet stores in Germany entered into in Q2 2023.

(9.) Other current non-financial assets

As of the reporting date, other current non-financial assets decreased by EUR 142.8m to EUR 315.1m (December 31, 2022: EUR 457.9m), which was mainly related to the collection of VAT receivables in Poland.

(10.) Cash and cash equivalents

Cash and cash equivalents increased by EUR 50.8m in the first half year of 2023.

For more information regarding the change in cash and cash equivalents, please refer to [2.5.2 \(15.\) Notes to the statement of cash flows](#).

(11.) Equity

In the first half year of 2023, the EUR 82.3m increase in equity primarily stems from our share-based compensation effects and our positive total comprehensive income of the period. The equity ratio increased from 28.8% at the beginning of the year to 30.8% as of June 30, 2023.

(12.) Provisions

Our current provisions increased by EUR 28.3m as of June 30, 2023 (December 31, 2022: EUR 0.0m). The increase is related to our severance and garden leave expenses from the reshaping program. The majority of the program measures will be executed in the second half of 2023.

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

Trade payables and similar liabilities dropped by EUR 226.7m in the first six months of 2023 due to higher stock inbound levels at the end of last year. As of June 30, 2023, suppliers' claims against Zalando totaling EUR 681.2m were transferred to various reverse factoring providers (December 31, 2022: EUR 794.2m). These balances were recognized under current liabilities, i.e. trade payables and similar liabilities.

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

(14.) Other current financial liabilities

As of the reporting date, other current financial liabilities decreased by EUR 63.7m to EUR 189.4m (December 31, 2022: EUR 253.1m). This was mainly due to the decrease in our obligations to reimburse customers for returns of EUR 36.6m and the decrease in derivative financial instruments of EUR 30.9m.

(15.) Notes to the statement of cash flows

In the first half of 2023, we generated positive cash flow from operating activities of EUR 204.4m (prior-year period: EUR -325.3m).

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

Cash-effective interest

IN EUR M	Q2 2023	Q2 2022	H1 2023	H1 2022
Interest paid	-13.3	-9.7	-25.0	-17.8
Interest received	5.0	0.7	7.9	1.3
Total	-8.3	-9.0	-17.1	-16.5

In the first half of the year 2023, interest paid includes cash payments for the interest portion of the lease liabilities of EUR 8.5m (prior-year period: EUR 7.9m) classified as cash flow from operating activities.

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

Free cash flow

IN EUR M	Q2 2023	Q2 2022	H1 2023	H1 2022
Cash flow from operating activities	371.1	136.2	204.4	-325.3
Cash paid for investments in property, plant and equipment	-22.4	-57.5	-40.1	-101.0
Cash paid for investments in intangible assets	-16.8	-17.0	-36.8	-39.7
Cash paid for acquisition of shares in associated companies and acquisition of companies and prepayments for such acquisitions	-1.2	-5.5	-1.7	-9.4
Free cash flow	330.7	56.2	125.8	-475.5

Cash flow from investing activities is predominately impacted by capex.

In H1 2023, the cash flow from financing activities predominately consists of payments of the principal portion of lease liabilities amounting to EUR 63.3m (prior-year period: EUR 49.5m).

Overall, we were able to improve net cash and cash equivalents from cash relevant transactions by EUR 720.1m year-on-year. In addition, cash and cash equivalents increased by EUR 50.8m during the first half of the year compared to year end 2022 and remained strong at EUR 2,075.6m as of June 30, 2023 (December 31, 2022: EUR 2,024.8m).

2.5.3 Other selected notes

(1.) 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 149.6m as of the reporting date (prior-year period: EUR 192.0m). Of this amount, EUR 149.3m (prior-year period: EUR 190.8m) 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 0.2m (prior-year period: EUR 1.2m). Trade receivables from related parties amount to EUR 0.3m (prior-year period: EUR 0.7m). Furthermore, we provided services to related parties of EUR 14.6m (prior-year period: EUR 18.6m).

Merchandise of EUR 119.2m was ordered from related parties in the reporting period. The order volume totaled EUR 191.1m in the comparative period of the prior year. In addition, goods totaling EUR 1.1m were sold to related parties (prior-year period: EUR 2.3m). 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 6,754 options under ZOP 2021 and one former member of the Management Board exercised 42,814 options under LTI 2019 in the reporting period. In the prior-year period, one member of the Management Board exercised 42,814 options under LTI 2019 and one former member of the Management Board exercised 407,475 options under SOP 2013.

(2.) Segment reporting

The condensed segment results for the first six months of 2023 are presented in the table below:

Segment results of the group H1

IN EUR M	Fashion Store	Offprice	All other segments	Total	Reconciliation	Total group
Revenue	3,903.5	851.9	180.0	4,935.5	-123.6	4,811.9
<i>(prior year)</i>	<i>(4,108.0)*</i>	<i>(688.8)</i>	<i>(140.8)</i>	<i>(4,937.6)*</i>	<i>(-109.5)*</i>	<i>(4,828.1)</i>
thereof intersegment revenue	81.7	0.1	46.0	127.8	-127.8	0.0
<i>(prior year)</i>	<i>(74.6)*</i>	<i>(1.9)</i>	<i>(33.0)</i>	<i>(109.5)*</i>	<i>(-109.5)*</i>	<i>(0.0)</i>
Adjusted EBIT	91.4	50.0	6.2	147.6	-3.6	144.1
<i>(prior year)</i>	<i>(0.8)</i>	<i>(15.9)</i>	<i>(6.7)</i>	<i>(23.5)</i>	<i>(2.1)</i>	<i>(25.6)</i>
Share-based payments	32.9	5.7	2.7	41.3	0.0	41.3
<i>(prior year)</i>	<i>(26.3)</i>	<i>(4.5)</i>	<i>(1.9)</i>	<i>(32.7)</i>	<i>(0.0)</i>	<i>(32.7)</i>
Acquisition-related expenses	0.4	0.0	8.8	9.2	0.0	9.2
<i>(prior year)</i>	<i>(0.0)</i>	<i>(0.0)</i>	<i>(0.0)</i>	<i>(0.0)</i>	<i>(0.0)</i>	<i>(0.0)</i>
Restructuring costs	28.0	2.7	2.3	33.0	0.0	33.0
<i>(prior year)</i>	<i>(0.0)</i>	<i>(0.0)</i>	<i>(0.0)</i>	<i>(0.0)</i>	<i>(0.0)</i>	<i>(0.0)</i>
EBIT	30.1	41.6	-7.6	64.2	-3.6	60.6
<i>(prior year)</i>	<i>(-25.5)</i>	<i>(11.4)</i>	<i>(4.9)</i>	<i>(-9.2)</i>	<i>(2.1)</i>	<i>(-7.1)</i>

*) Prior-year figures adjusted, see below for more information

The condensed segment results for Q2 2023 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	2,090.9	436.4	97.1	2,624.5	-68.1	2,556.3
<i>(prior year)</i>	<i>(2,229.0)*</i>	<i>(376.2)</i>	<i>(81.9)</i>	<i>(2,687.2)*</i>	<i>(-64.1)*</i>	<i>(2,623.0)</i>
thereof intersegment revenue	44.6	0.0	25.4	70.1	-70.1	0.0
<i>(prior year)</i>	<i>(43.1)*</i>	<i>(1.3)</i>	<i>(19.7)</i>	<i>(64.1)*</i>	<i>(-64.1)*</i>	<i>(0.0)</i>
Adjusted EBIT	110.6	25.4	7.7	143.7	1.1	144.8
<i>(prior year)</i>	<i>(61.0)</i>	<i>(9.5)</i>	<i>(7.6)</i>	<i>(78.1)</i>	<i>(-0.6)</i>	<i>(77.4)</i>
Share-based payments	16.0	2.9	1.3	20.2	0.0	20.2
<i>(prior year)</i>	<i>(13.4)</i>	<i>(2.2)</i>	<i>(0.8)</i>	<i>(16.4)</i>	<i>(0.0)</i>	<i>(16.4)</i>
Acquisition-related expenses	0.3	0.0	4.5	4.8	0.0	4.8
<i>(prior year)</i>	<i>(0.0)</i>	<i>(0.0)</i>	<i>(0.0)</i>	<i>(0.0)</i>	<i>(0.0)</i>	<i>(0.0)</i>
Restructuring costs	28.0	2.7	2.3	33.0	0.0	33.0
<i>(prior year)</i>	<i>(0.0)</i>	<i>(0.0)</i>	<i>(0.0)</i>	<i>(0.0)</i>	<i>(0.0)</i>	<i>(0.0)</i>
EBIT	66.3	19.7	-0.4	85.6	1.1	86.8
<i>(prior year)</i>	<i>(47.6)</i>	<i>(7.2)</i>	<i>(6.8)</i>	<i>(61.7)</i>	<i>(-0.6)</i>	<i>(61.0)</i>

*) Prior-year figures adjusted, see below for more information

H1 2022 revenue for the Fashion Store segment was adjusted by EUR -257.3m as internal stock transfers and services are no longer reported as Fashion Store segment revenues but netted with the corresponding cost lines and thus reported on a net basis starting Q1 2023. This change follows a corresponding adjustment in the internal steering of our segments to focus more on the contribution of our segments to the group figures. The change does not impact group or Offprice GMV, revenue, gross margin or adjusted EBIT, nor Fashion Store GMV and adjusted EBIT.

(3.) Subsequent events

No significant events occurred between the reporting date (June 30, 2023) and the date the interim consolidated financial statements and the interim group management report were authorized for issue by the Management Board (August 2, 2023) which could materially affect the presentation of the financial performance and position of the group.

Berlin, August 2, 2023

The Management Board

Robert Gentz	David Schneider	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 2, 2023

The Management Board

Robert Gentz

David Schneider

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, 2023, which are part of the half-year financial report pursuant to Section 115 WpHG [“Wertpapierhandelsgesetz”: German Securities Trading Act]. The executive directors of the company 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. In accordance with our engagement, we have not performed an audit and thus cannot issue an auditor’s report.

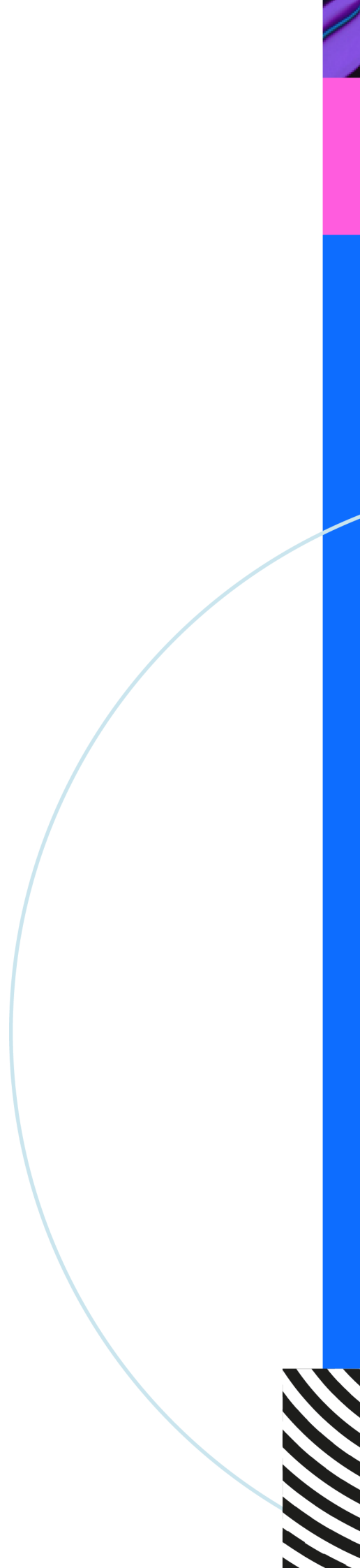
Based on our review, nothing has come to our attention that causes us to believe that the interim condensed consolidated financial statements are not prepared, in all material respects, in accordance with IFRSs on interim financial reporting as adopted by the EU or that the interim group management report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

Stuttgart, August 2, 2023

Ernst & Young GmbH
Wirtschaftsprüfungsgesellschaft

Werling	Störzinger
Wirtschaftsprüfer	Wirtschaftsprüfer
[German Public Auditor]	[German Public Auditor]

Service



3.1 Glossary

Active customers

We define active customers as the number of customers who have placed at least one order in the last 12 months during the reporting period, irrespective of returns. The number of customers who have completely canceled their orders is excluded.

Adjusted EBIT

We define adjusted EBIT as EBIT before equity-settled share-based payment expense, restructuring costs, acquisition-related expenses 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 Partners 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

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.

Net working capital

We calculate net working capital as the sum of inventories and trade and other 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 2023

Financial calendar

Date	Event
Thursday, November 2	Publication of the third quarter results 2023

3.3 Imprint

Contact

Zalando SE

Valeska-Gert-Straße 5

10243 Berlin

corporate.zalando.com

press@zalando.com

Investor Relations

Patrick Kofler/Director Investor Relations

investor.relations@zalando.de

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. 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>.

