

HALF-YEAR REPORT
2018

2

ZALANDO AT A GLANCE

Key Figures

	Apr 1 – Jun 30, 2018	Apr 1 – Jun 30, 2017	Jan 1 – Jun 30, 2018	Jan 1 – Jun 30, 2017
Group key performance indicators				
Site visits (in millions)	734.3	595.2	1,447.8	1,212.8
Mobile visit share (in %)	78.4	69.7	77.5	69.3
Active customers (in millions)	24.6	21.2	24.6	21.2
Number of orders (in millions)	29.0	22.2	54.4	42.1
Average orders per active customer	4.2	3.7	4.2	3.7
Average basket size (in EUR)	60.4	64.5	60.3	63.8
Adjusted marketing cost ratio (as % of revenue)	6.4	7.3	6.6	8.3
Adjusted fulfillment cost ratio (as % of revenue)	28.2	26.8	28.2	25.9
Results of operations				
Revenue (in EUR m)	1,330.0	1,100.5	2,526.0	2,080.7
EBIT (in EUR m)	87.3	76.3	72.1	91.2
EBIT (as % of revenue)	6.6	6.9	2.9	4.4
Adjusted EBIT (in EUR m)	94.0	81.8	94.4	102.1
Adjusted EBIT (as % of revenue)	7.1	7.4	3.7	4.9
EBITDA (in EUR m)	106.9	89.8	109.6	117.3
EBITDA (as % of revenue)	8.0	8.2	4.3	5.6
Adjusted EBITDA (in EUR m)	113.6	95.3	131.9	128.2
Adjusted EBITDA (as % of revenue)	8.5	8.7	5.2	6.2
Financial position				
Net working capital (in EUR m)	16.1	-62.4*	16.1	-62.4*
Equity ratio (as % of balance sheet total)	51.1	51.6*	51.1	51.6*
Cash flow from operating activities (in EUR m)	80.7	79.1	4.7	62.4
Cash flow from investing activities (in EUR m)	-67.0	-51.5	-93.3	-58.9
Capex (in EUR m)	-67.0	-52.1	-108.8	-130.0
Free cash flow (in EUR m)	13.7	0.3	-108.5	-94.2
Cash and cash equivalents (in EUR m)	874.7	975.1	874.7	975.1
Other				
Employees (as of the reporting date)	15,612	15,091	15,612	15,091
Basic earnings per share (in EUR)	0.21	0.19	0.15	0.21

pp = percentage points
*) As of Dec 31, 2017

Interim Group Management Report_

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**Interim
Group
Management
Report_**

1.1 Background to the Group

The statements made in the annual report 2017 on the business model, the group structure, the strategy and objectives of the group, and on research and development and sustainability in the Zalando group still apply at the time this interim report was issued for publication. The statements made on the management system still apply except for the group segments as described below.

Group Segments

ZALANDO SE's internal management structure is based on a sales channel perspective. Through fiscal year-end 2017, the Management Board monitored the development of the business for the main sales channel, the Zalando online shop, by geographical breakdown into the regions DACH and Rest of Europe. All other sales channels were grouped under the Other segment, which mainly comprised revenue generated by the Zalando Lounge, outlet stores, the new platform initiatives, as well as the private label product sales outside of the Fashion Store.

As of January 1, 2018 ZALANDO SE changed its internal management structure, and thus the segment reporting. The focus is now primarily on sales channels rather than on geographical regions. In addition, Zalando has changed the way the information reported to the so-called chief operating decision maker according to IFRS 8 is presented. While reporting was previously on a consolidated basis, from January 1, 2018 onwards, revenue and profitability generated with external business partners as well as the internal transactions between segments of Zalando are reported. Due to this change, the segment reporting has been supplemented by a reconciliation column to reconcile the segment figures (including internal and external transactions) to the consolidated group figures (showing only external transactions).

These changes increase the level of responsibility and decision making within the individual sales channels. Under the new structure, our main sales channel continues to be the Fashion Store (online shops of Zalando). The Offprice segment includes Zalando Lounge, outlet stores and overstock management, all other segments include the private label offering zLabels and various emerging businesses. Financial information for the Offprice segment is separately disclosed as it exceeds a quantitative threshold of IFRS 8.13 and thus qualifies as a reportable segment. However, to ensure continuity of capital market reporting, Zalando will continue to report a breakdown of results within the Fashion Store into DACH and Rest of Europe.

1.2 Report on Economic Position

1.2.1 Macroeconomic and Sector-Specific Environment

The internet retail sector continues to grow faster than overall retail in Europe. Although its growth slowed down slightly from the previous year, internet retail rose by 12.9% in 2017 in comparison to general retail which grew only by 2.9%.¹ The European fashion retail sector closed 2017 with a trading volume of around EUR 420 bn, up 1.5% and the online fashion market grew by 10.5% to EUR 56 bn.²

It is uncertain how the fashion retail sector will perform in the second half of 2018 as the results in the first half were weak. According to the Textilwirtschaft journal, the total fashion trade in the first half of 2018 decreased by 2.0% compared to the corresponding prior-year period.³ As a result of the record low temperatures in spring, consumers opted for discounted winter items.⁴ Moreover, the early summer meant that retailers lost out on spring sales.⁵ Nonetheless, according to the German E-commerce trade association online retail in general got off to a strong start in 2018. Online retail increased by 11.1% in the first half of 2018 compared to the same period in 2017.⁶ Moreover, online fashion increased by 9.0% compared to the prior-year period.⁷ The forecast for the remaining half of 2018 for the online sector remains positive.

We believe our business model will continue to benefit from the positive outlook for the European online fashion market.

Technological advancements play a key role in the adoption of online fashion as a viable shopping channel. The market penetration for internet fashion retail in Europe is forecast to continue to grow at the expense of traditional offline stores. Online fashion penetration is expected to grow from 14.0% in 2017 to 20.0% in 2022. Moreover in Germany, Zalando's key market, the penetration is expected to grow from 19.4% to 30.3%.

The increased penetration of mobile devices and their extended range of applications has been a key driver for the strong growth in online retail trade, including online fashion. Smartphones and tablets provide access anytime and nearly anywhere, and consumers increasingly use these devices to shop for fashion. Forecasts for mobile commerce indicate that this trend is likely to continue, expecting an average annual growth rate of roughly 14.2% for the next five years.⁸

¹ Euromonitor, Europe excl. Russia

² Euromonitor, Europe excl. Russia

³ Textilwirtschaft 2018

⁴ Textilwirtschaft 2018

⁵ Textilwirtschaft 2018

⁶ BevH 2018

⁷ BevH 2018

⁸ Euromonitor, Europe excl. Russia

1.2.2 Financial Performance of the Group

In the reporting period, the condensed consolidated income statement for the second quarter of 2018 shows continued strong revenue growth and solid profitability, while we continued to push forward our investments in customer experience, brand partner proposition, technology and operations infrastructure.

Consolidated Income Statement

IN EUR M	Jan 1 – Jun 30, 2018	As % of revenue	Jan 1 – Jun 30, 2017	As % of revenue	Change
Revenue	2,526.0	100.0%	2,080.7	100.0%	0.0pp
Cost of sales	-1,443.6	-57.1%	-1,159.8	-55.7%	-1.4pp
Gross profit	1,082.4	42.9%	920.9	44.3%	-1.4pp
Selling and distribution costs	-892.1	-35.3%	-717.0	-34.5%	-0.9pp
Administrative expenses	-125.4	-5.0%	-113.2	-5.4%	0.5pp
Other operating income	9.4	0.4%	4.3	0.2%	0.2pp
Other operating expenses	-2.2	-0.1%	-3.8	-0.2%	0.1pp
Earnings before interest and taxes (EBIT)	72.1	2.9%	91.2	4.4%	-1.5pp

Half-Year Other Consolidated Financial Information

IN EUR M	Jan 1 – Jun 30, 2018	Jan 1 – Jun 30, 2017	Change
EBIT margin (as % of revenue)	2.9%	4.4%	-1.5pp
Adjusted EBIT	94.4	102.1	-7.7
Adjusted EBIT margin (as % of revenue)	3.7%	4.9%	-1.2pp
EBITDA	109.6	117.3	-7.7
Adjusted EBITDA	131.9	128.2	3.7

Second Quarter Consolidated Income Statement

IN EUR M	Apr 1 – Jun 30, 2018	As % of revenue	Apr 1 – Jun 30, 2017	As % of revenue	Change
Revenue	1,330.0	100.0%	1,100.5	100.0%	0.0pp
Cost of sales	-721.7	-54.3%	-585.0	-53.2%	-1.1pp
Gross profit	608.4	45.7%	515.5	46.8%	-1.1pp
Selling and distribution costs	-462.4	-34.8%	-377.7	-34.3%	-0.4pp
Administrative expenses	-64.4	-4.8%	-60.4	-5.5%	0.6pp
Other operating income	6.7	0.5%	1.5	0.1%	0.4pp
Other operating expenses	-1.0	-0.1%	-2.7	-0.2%	0.2pp
Earnings before interest and taxes (EBIT)	87.3	6.6%	76.3	6.9%	-0.4pp

Second Quarter Other Consolidated Financial Information

IN EUR M	Apr 1 – Jun 30, 2018	Apr 1 – Jun 30, 2017	Change
EBIT margin (as % of revenue)	6.6%	6.9%	-0.4pp
Adjusted EBIT	94.0	81.8	12.2
Adjusted EBIT margin (as % of revenue)	7.1%	7.4%	-0.4pp
EBITDA	106.9	89.8	17.0
Adjusted EBITDA	113.6	95.3	18.2

1.2 REPORT ON ECONOMIC POSITION

Key Performance Indicators

KEY PERFORMANCE INDICATORS*	Apr 1 – Jun 30, 2018	Apr 1 – Jun 30, 2017	Change	Jan 1 – Jun 30, 2018	Jan 1 – Jun 30, 2017	Change
Site visits (in millions)	734.3	595.2	23.4%	1,447.8	1,212.8	19.4%
Mobile visit share (as % of site visits)	78.4	69.7	8.6pp	77.5	69.3	8.2pp
Active customers (in millions)	24.6	21.2	15.9%	24.6	21.2	15.9%
Number of orders (in millions)	29.0	22.2	30.3%	54.4	42.1	29.2%
Average orders per active customer	4.2	3.7	13.4%	4.2	3.7	13.4%
Average basket size (in EUR)	60.4	64.5	-6.4%	60.3	63.8	-5.4%
Revenue (in EUR m)	1,330.0	1,100.5	20.9%	2,526.0	2,080.7	21.4%
Fulfillment cost ratio (as % of revenue)	28.3	26.9	1.4pp	28.3	26.1	2.2pp
Marketing cost ratio (as % of revenue)	6.4	7.4	-0.9pp	7.0	8.4	-1.4pp
Adjusted fulfillment cost ratio (as % of revenue)	28.2	26.8	1.4pp	28.2	25.9	2.2pp
Adjusted marketing cost ratio (as % of revenue)	6.4	7.3	-0.8pp	6.6	8.3	-1.6pp
EBIT (in EUR m)	87.3	76.3	14.4%	72.1	91.2	-20.9%
EBIT margin (as % of revenue)	6.6	6.9	-0.4pp	2.9	4.4	-1.5pp
Adjusted EBIT (in EUR m)	94.0	81.8	14.9%	94.4	102.1	-7.5%
Adjusted EBIT (as % of revenue)	7.1	7.4	-0.4pp	3.7	4.9	-1.2pp
EBITDA (in EUR m)	106.9	89.8	19.0%	109.6	117.3	-6.5%
Adjusted EBITDA (in EUR m)	113.6	95.3	19.1%	131.9	128.2	2.9%
Net working capital (in EUR m)	16.1	-62.4**	78.5	16.1	-62.4**	78.5
Operating cash flow (in EUR m)	80.7	79.1	1.9%	4.7	62.4	-92.4%
Capex (in EUR m)	-67.0	-52.1	28.4%	-108.8	-130.0	-16.3%
Free cash flow (in EUR m)	13.7	0.3	> 100%	-108.5	-94.2	15.2%

*) For an explanation of the performance indicators please refer to the glossary.
 **) As of Dec 31, 2017

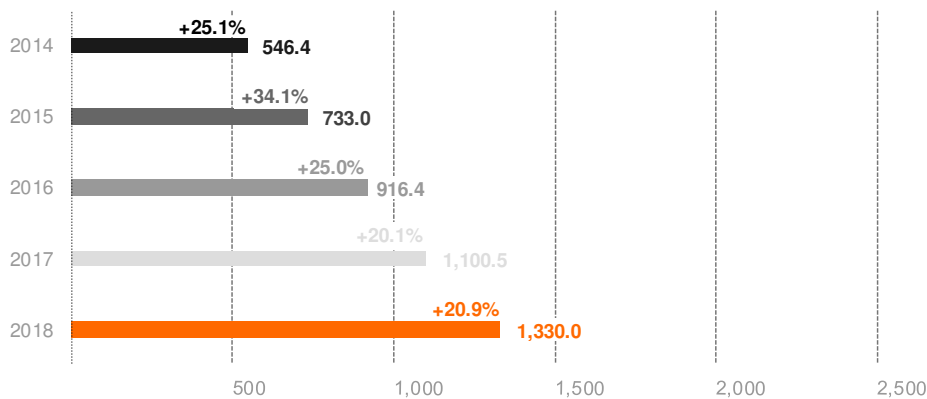
Zalando's most important key performance indicators are revenue, EBIT, adjusted EBIT, capex, the number of active customers and the average number of orders per active customer.

Development of Revenue

In Q2 2018 Zalando increased its revenue by EUR 229.5m from EUR 1,100.5m to EUR 1,330.0m compared to the prior-year period. This corresponds to year-on-year revenue growth of 20.9%.

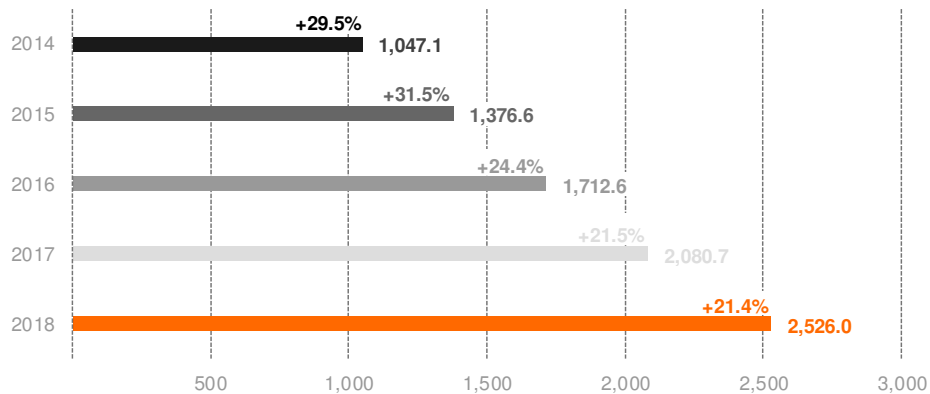
Second Quarter Revenue 2014 – 2018

IN EUR M



Half-Year Revenue 2014 – 2018

IN EUR M



The increase in revenue is driven by a larger customer base as well as an increase in average orders per active customer. As of June 30, 2018, the group had 24.6 million active customers compared to 21.2 million active customers as of June 30, 2017. This corresponds to an increase of 15.9%. The larger customer base ordered more frequently than in the corresponding prior-year period with the average number of orders per active customer rising by 13.4%, triggered also by an increasing use of mobile devices, while the average basket size decreased by 6.4%.

In the first six months of 2018, revenue rose by 21.4% to EUR 2,526.0m (prior year: EUR 2,080.7m) compared to the corresponding prior-year period, driven by the aforementioned factors.

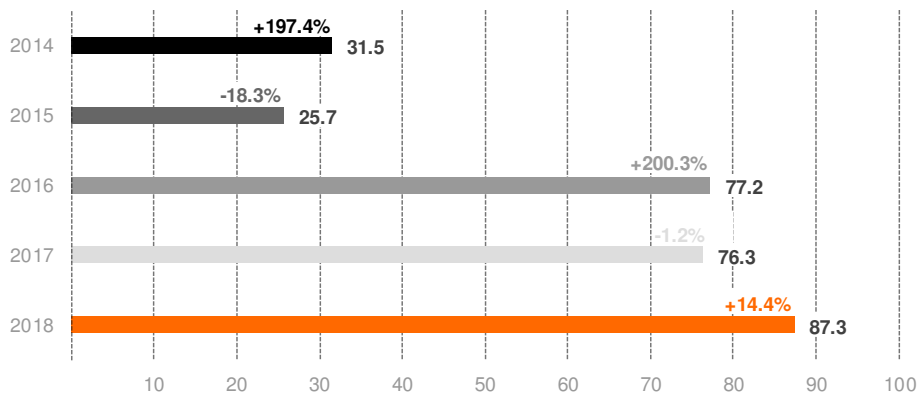
Development of EBIT

The group recorded an EBIT of EUR 87.3m in the second quarter of 2018 (prior year: EUR 76.3m). The decrease in the EBIT margin of 0.4 percentage points to 6.6% (prior year: 6.9%) was mainly driven by

the gross margin which decreased by 1.1 percentage points, and by the fulfillment cost ratio which increased by 1.4 percentage points, partially offset by an improved marketing cost ratio (improved by 0.9 percentage points) and administration cost ratio (improved by 0.6 percentage points).

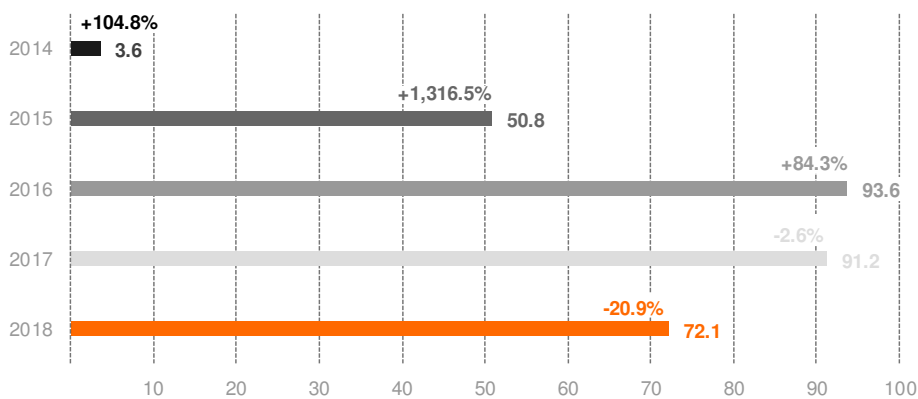
Second Quarter EBIT 2014 – 2018

IN EUR M



Half-Year EBIT 2014 – 2018

IN EUR M



In Q2 2018, cost of sales rose by 23.4% from EUR 585.0m to EUR 721.7m resulting in a decrease in the gross margin of 1.1 percentage points from 46.8% to 45.7% mainly driven by a higher average discount rate compared to the prior-year period.

Selling and distribution costs rose by 22.4% from EUR 377.7m to EUR 462.4m. This corresponds to an increase as a percentage of revenue of 0.4 percentage points from 34.3% to 34.8%. Selling and distribution costs consist of fulfillment and marketing costs.

The fulfillment cost ratio as a percentage of revenue increased in the second quarter of 2018 by 1.4 percentage points in comparison to the prior-year period. The increase in the fulfillment cost ratio is

primarily attributable to higher logistic costs, as Zalando is building up a diverse logistics network and continues to invest in the customer and brand proposition. Examples include the ramp-up of new fulfillment centers in France, Italy, Sweden and Poland, and investments in convenience such as same day delivery to enhance our customer experience.

The marketing cost ratio improved by 0.9 percentage points to 6.4% compared to the prior-year period resulting primarily from savings and efficiency gains, in particular within performance marketing. Overall, Zalando continued to shift marketing spending to fulfillment investments as a higher long-term return is expected on these investments.

Compared to the prior-year period, administrative expenses increased by EUR 4.0m from EUR 60.4m to EUR 64.4m in Q2 2018, implying a decrease of 0.6 percentage points as a percentage of revenue. The change in the internal management structure as described in the section "Background to the Group" resulted in a shift of activities within the organization that led to a shift of expenses from administrative expenses to cost of sales and selling and distribution costs. This effect is partly offset by the shift in share-based compensation expenses due to the same reasons.

The development in the first six months of 2018 can be summarized as follows: the EBIT margin as a percentage of revenue decreased by 1.5 percentage points from 4.4% in the first half of 2017 to 2.9% in the first half of 2018. This decline mainly resulted from a decrease in gross margin and a higher selling and distribution cost ratio. Gross margin decreased by 1.4 percentage points to 42.9%, mainly due to a higher average discount rate. As a percentage of revenue, the selling and distribution costs increased by 0.9 percentage points from 34.5% in the first half of 2017 to 35.3% in the first half of 2018 mainly as a result of continued investment in our logistic infrastructure. The marketing cost ratio improved by 1.4 percentage points to 7.0% in the first half of 2018 whereby operational improvements were partly offset by restructuring costs incurred in Q1 2018. These costs were incurred as a new setup was established for the marketing department in connection with the organizational changes described in the section "Background to the Group".

Adjusted EBIT

To assess the operating performance of the business, Zalando's management also considers adjusted EBIT and the adjusted EBIT margin before expenses for equity-settled share-based payments, restructuring costs and non-operating one-time effects.

In the second quarter of 2018, Zalando generated adjusted EBIT of EUR 94.0m (prior year: EUR 81.8m), which translates into an adjusted EBIT margin of 7.1% (prior year: 7.4%). As expenses from equity-settled share-based payments remained on the prior-year period level, the development of adjusted EBIT and the adjusted EBIT margin stemmed almost exclusively from the aforementioned drivers of unadjusted EBIT.

EBIT includes the following expenses from equity-settled share-based payments. More information can be found in the notes to the annual financial statements 2017 (section 3.5.7 (20.)).

Share-Based Compensation Expenses per Functional Area

IN EUR M	Apr 1 – Jun 30, 2018	Apr 1 – Jun 30, 2017	Change	Jan 1 – Jun 30, 2018	Jan 1 – Jun 30, 2017	Change
Expenses for equity-settled share-based payments	6.7	5.5	1.2	11.4	10.9	0.5
Cost of sales	0.9	1.4	-0.4	1.6	2.7	-1.2
Selling and distribution costs	2.4	2.7	-0.4	3.7	5.4	-1.7
thereof marketing costs	0.4	1.4	-1.0	0.6	2.7	-2.1
thereof fulfillment costs	2.0	1.4	0.6	3.1	2.7	0.4
Administrative expenses	3.4	1.4	2.0	6.1	2.7	3.4

As explained above, the change in the internal management structure as described in the section “Background to the Group” resulted in a shift of share-based compensation expenses between the different cost lines, which led to a slightly increased allocation to administrative expenses.

In the first six months of 2018 EBIT furthermore included the above-mentioned restructuring costs of EUR 10.9m that were incurred in Q1 2018 mainly in connection with the implementation of a new setup of the marketing department. These costs are also adjusted for in the calculation of adjusted EBIT. In the first six months of 2017, EBIT contained no restructuring costs.

1.2.3 Results by Segment

As of January 1, 2018 ZALANDO SE changed its internal management structure. The focus is now primarily on sales channels rather than on geographical regions. In addition, Zalando has changed the way the information reported to the so-called chief operating decision maker according to IFRS 8 is presented. While reporting was previously on a consolidated basis, from January 1, 2018 onwards, revenue and profitability generated with external business partners as well as the internal transactions between segments of Zalando are reported. The segment reporting has been adjusted accordingly. Please see section “Background to the Group” for details.

Segment Development for the Quarter

Segment Results of the Group Q2 2018

IN EUR M	Fashion Store	Offprice	All other segments	Total	Reconciliation	Total Group
Revenue	1,233.4	114.6	100.8	1,448.7	-118.7	1,330.0
thereof intersegment revenue	40.4	0.0	78.3	118.7	-118.7	0.0
Earnings before interest and taxes (EBIT)	86.6	7.1	-8.1	85.6	1.7	87.3
Adjusted EBIT	92.2	7.5	-7.5	92.2	1.7	94.0

Segment Results of the Group Q2 2017

IN EUR M	Fashion Store	Offprice	All other segments	Total	Reconciliation	Total Group
Revenue	1,017.0	82.3	81.9	1,181.2	-80.7	1,100.5
thereof intersegment revenue	16.2	0.0	64.5	80.7	-80.7	0.0
Earnings before interest and taxes (EBIT)	69.7	11.5	-4.9	76.3	0.0	76.3
Adjusted EBIT	74.7	11.8	-4.7	81.8	0.0	81.8

Fashion Store Results by Region Q2 2018

IN EUR M	DACH	Rest of Europe	Fashion Store
Revenue	625.8	607.6	1,233.4
thereof intersegment revenue	21.3	19.1	40.4
Earnings before interest and taxes (EBIT)	57.0	29.5	86.6
Adjusted EBIT	60.0	32.2	92.2

Fashion Store Results by Region Q2 2017

IN EUR M	DACH	Rest of Europe	Fashion Store
Revenue	542.2	474.8	1,017.0
thereof intersegment revenue	8.7	7.5	16.2
Earnings before interest and taxes (EBIT)	55.0	14.7	69.7
Adjusted EBIT	57.6	17.0	74.7

The positive development of revenue continued across all segments. In Q2 2018, revenue in the Fashion Store segment grew by 21.3%, in the Offprice segment by 39.3% and in all other segments by 23.0%, compared to the prior-year period. The Fashion Store segment continued to generate the highest absolute level of revenue, although the Offprice segment shows the highest percentage increase in revenue. The revenue increase in the Offprice segment is mainly due to Zalando Lounge, which significantly increased the number of campaigns and active customers and launched a new market (Poland) in September 2017. Furthermore, a new outlet store was opened in Leipzig in June 2018. The vast majority of all other segment's revenue was contributed by the private label offering zLabels, mainly resulting from arm's length inter-segment merchandise sales to the Fashion Store segment.

The Fashion Store segment showed good profitability with an EBIT margin of 7.0% in Q2 2017 that is a slight increase of 0.2 percentage points compared to the prior-year period. The Offprice segment recorded an EBIT of EUR 7.1m with the EBIT margin decreasing from a high level of 13.9% in the prior-year period to 6.2% in Q2 2018, mainly caused by a lower gross margin. Decrease in gross margin was

impacted by increasing internal sourcing costs caused by newly negotiated internal, arm's length transfer prices. All other segments recorded a total decrease of 2.0 percentage points, resulting in an EBIT margin of -8.0% in the second quarter of 2018, driven by increased investments in our growing emerging businesses.

Segment Development for the First Six Months

Segment Results of the Group Half-Year 2018

IN EUR M	Fashion Store	Offprice	All other segments	Total	Reconciliation	Total Group
Revenue	2,327.3	235.0	200.6	2,762.9	-236.8	2,526.0
thereof intersegment revenue	80.8	0.0	156.0	236.8	-236.8	0.0
Earnings before interest and taxes (EBIT)	72.5	15.2	-17.6	70.0	2.1	72.1
Adjusted EBIT	92.0	16.0	-15.8	92.3	2.1	94.4

Segment Results of the Group Half-Year 2017

IN EUR M	Fashion Store	Offprice	All other segments	Total	Reconciliation	Total Group
Revenue	1,925.8	154.7	166.2	2,246.7	-166.1	2,080.7
thereof intersegment revenue	31.8	0.0	134.3	166.1	-166.1	0.0
Earnings before interest and taxes (EBIT)	81.2	17.3	-7.3	91.2	0.0	91.2
Adjusted EBIT	91.0	17.9	-6.9	102.1	0.0	102.1

Fashion Store Results by Region Half-Year 2018

IN EUR M	DACH	Rest of Europe	Fashion Store
Revenue	1,177.8	1,149.5	2,327.3
thereof intersegment revenue	42.2	38.6	80.8
Earnings before interest and taxes (EBIT)	67.1	5.3	72.5
Adjusted EBIT	76.7	15.4	92.0

Fashion Store Results by Region Half-Year 2017

IN EUR M	DACH	Rest of Europe	Fashion Store
Revenue	1,017.2	908.6	1,925.8
thereof intersegment revenue	16.7	15.0	31.8
Earnings before interest and taxes (EBIT)	88.8	-7.7	81.2
Adjusted EBIT	94.1	-3.0	91.0

In the Fashion Store segment, revenue rose by 20.8% in the first six months of 2018 compared to the corresponding prior-year period, and as such the Fashion Store continues to be the strongest segment in terms of absolute revenue. In the Offprice segment, revenue grew by 51.9% while in all other segments total revenue growth stood at 20.7%.

The EBIT margin in the Fashion Store segment decreased by 1.1 percentage points from 4.2% in the first six months of 2017 to 3.1% in the first six months of 2018. This decline mainly resulted from a lower gross margin and higher fulfillment costs, partly compensated by lower marketing and administrative expense ratios. The Offprice segment recorded an EBIT margin of 6.5%. The decrease from a high level of 11.2% in the prior-year period is mainly attributable to a lower gross margin. The decrease in gross margin was impacted by increasing internal sourcing costs caused by newly negotiated internal, arm's length transfer prices. The EBIT margin in all other segments decreased by 4.4 percentage points to -8.8% in the first six months of 2018 in comparison to the first six months of 2017 mainly driven by increased investments in our growing emerging businesses.

Adjusted EBIT

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

Share-Based Compensation Expenses per Segment

IN EUR M	Apr 1 – Jun 30, 2018	Apr 1 – Jun 30, 2017	Change	Jan 1 – Jun 30, 2018	Jan 1 – Jun 30, 2017	Change
Expenses for equity-settled share-based payment	6.7	5.5	1.2	11.4	10.9	0.5
Fashion Store	5.7	5.0	0.7	9.6	9.9	-0.3
Offprice	0.4	0.3	0.1	0.7	0.7	0.0
All other segments	0.6	0.2	0.4	1.1	0.4	0.7

EBIT furthermore contains the above-mentioned restructuring costs that incurred in Q1 2018 with EUR 10.0m in the Fashion Store segment, EUR 0.1m in the Offprice segment and EUR 0.8m in all other segments. The prior-year period didn't contain any restructuring costs.

The Fashion Store segment generated an adjusted EBIT margin of 7.5% in the second quarter of 2018, which translates into an increase of 0.1 percentage points when compared to the prior-year period. The Offprice segment recorded an adjusted EBIT margin of 6.5%, a decline of 7.8 percentage points in the

adjusted EBIT margin compared to the prior-year period. All other segments generated an adjusted EBIT margin of -7.4% in the second quarter of 2018, representing a decrease of 1.7 percentage points. The development in adjusted EBIT and adjusted EBIT margin resulted almost exclusively from the aforementioned drivers described for unadjusted EBIT.

1.2.4 Cash Flows

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

Condensed Statement of Cash Flows

IN EUR M	Apr 1 – Jun 30, 2018	Apr 1 – Jun 30, 2017	Jan 1 – Jun 30, 2018	Jan 1 – Jun 30, 2017
Cash flow from operating activities	80.7	79.1	4.7	62.4
Cash flow from investing activities	-67.0	-51.5	-93.3	-58.9
Cash flow from financing activities	-64.7	-1.0	-98.3	-1.8
Change in cash and cash equivalents	-51.0	26.7	-186.9	1.8
Exchange-rate related and other changes in cash and cash equivalents	-1.9	-1.5	-3.1	0.7
Cash and cash equivalents at the beginning of the period	927.7	949.9	1,064.7	972.6
Cash and cash equivalents as of June 30	874.7	975.1	874.7	975.1

Zalando generated a positive cash flow from operating activities of EUR 80.7m in the second quarter of 2018 (prior-year period: EUR 79.1m).

Compared to the prior-year period, net income increased from EUR 47.4m to EUR 51.8m in the second quarter of 2018. The slightly higher operating cash flow was mainly driven by the higher net income, lower income taxes paid and higher depreciation, offsetting negative cash flow effects from increased net working capital and decreased other liabilities.

The cash flow from investing activities is mainly impacted by capex, being the sum of the payments for investments in fixed and intangible assets excluding payments for acquisitions, amounting to EUR 67.0m (prior-year period: EUR 52.1m). Capex mainly included increased investments in the logistics infrastructure of EUR 55.6, relating primarily to the fulfillment centers in Nogarole Rocca close to Verona, Italy, Gryfino close to Szczecin, Poland and Gluchow, close to Lodz, Poland as well as investments in internally developed software of EUR 10.3m.

There were no acquisitions in Q2 2018, whereas the second quarter in the prior year contained cash paid for corporate acquisitions of EUR 26.7m relating to Kickz Never Not Ballin' GmbH and Anatwine Ltd.

As a result, the free cash flow increased by EUR 13.4m from EUR 0.3m in the prior-year period to EUR 13.7m in the second quarter of 2018.

Cash flow from investing activities further consists of cash invested in term deposits with an original term of more than three months and is therefore presented in cash flow from investing activities. In Q2 2018, there was no cash flow from term deposits, whereas the prior-year period contained cash inflows of EUR 20.0m from maturing term deposits.

Cash outflow from financing activities included the repurchase of treasury shares of EUR 66.9m in Q2 2018. The shares serve to meet obligations arising from share option programs to employees and to members of the Management Board. The Management Board of ZALANDO SE had decided to buy back own shares up to EUR 100m in value (excluding incidental transaction charges) or up to 2,500,000 shares (whichever value is reached earlier) pursuant to Section 71 (1) No. 8 AktG [“Aktiengesetz”: German Stock Corporation Act] based on the authorization of the company’s annual general meeting of June 2, 2015. The shares were bought back in two tranches of EUR 50m, each purchase distributed over several days, resulting in a repurchase value of EUR 33.2m in Q1 2018 and EUR 66.9m in Q2 2018.

Aggregate cash and cash equivalents decreased by EUR 52.9m in the second quarter, resulting in Zalando carrying cash and cash equivalents of EUR 874.7m as of June 30, 2018.

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, 2018		Dec 31, 2017		Change	
Non-current assets	641.5	22.0%	569.6	19.1%	71.9	12.6%
Current assets	2,276.1	78.0%	2,410.7	80.9%	-134.6	-5.6%
Total assets	2,917.6	100.0%	2,980.3	100.0%	-62.7	-2.1%

Equity and Liabilities

IN EUR M	Jun 30, 2018		Dec 31, 2017		Change	
Equity	1,489.9	51.1%	1,538.9	51.6%	-49.0	-3.2%
Non-current liabilities	69.2	2.4%	71.9	2.4%	-2.7	-3.8%
Current liabilities	1,358.5	46.6%	1,369.5	46.0%	-11.0	-0.8%
Total equity and liabilities	2,917.6	100.0%	2,980.3	100.0%	-62.7	-2.1%

Compared to December 31, 2017, Zalando’s total assets decreased by EUR 62.7m. The statement of financial position is dominated by working capital, cash and cash equivalents as well as equity.

In the first six months of 2018, additions to intangible assets amounted to EUR 27.1m (prior year: EUR 82.2m, mostly driven by acquisition effects) and additions to property, plant and equipment totaled EUR 100.2m (prior year: EUR 102.3m), mainly relating to the fulfillment centers in Gryfino close to Szczecin, Poland, Lahr, Germany and Gluchow, close to Lodz, Poland.

Inventories mainly comprise goods required for Zalando's wholesale business. The EUR 34.4m increase in inventories to EUR 813.3m reflects the overall increase in business volume.

Trade and other receivables as reported on June 30, 2018 are all current. The increase from EUR 278.7m to EUR 310.8m is primarily attributable to the higher sales volume.

In the first half of 2018, equity decreased from EUR 1,538.9m to EUR 1,489.9m. The EUR 49.0m decrease primarily stems from the buy-back of own shares, partly offset by the positive net income for the period. Thus, the equity ratio decreased slightly from 51.6% at the beginning of the year to 51.1% as of June 30, 2018.

Current liabilities decreased by EUR 11.0m in the reporting period. This decrease is mainly attributable to trade payables, which slightly decreased by EUR 12.0m, mainly due to the season switch. Under reverse factoring agreements, suppliers' claims against Zalando totaling EUR 333.0m as of June 30, 2018 were transferred to various factoring providers (December 31, 2017: EUR 328.9m). These items were recognized in the statement of financial position under trade payables and similar liabilities.

Overall Assessment

The Management Board views the business development in the first two quarters of 2018 as positive. The Zalando group increased its revenue in line with management expectations and gained additional market share. EBIT decreased slightly as a result of ongoing growth investments into consumer and brand proposition and infrastructure. Overall, Zalando can look back on a successful first half of 2018.

1.2.6 Employees

The headcount increased by 521 to 15,612 employees as of June 30, 2018, compared to 15,091 employees as of December 31, 2017. The strong growth was primarily driven by the increasing headcount in the commercial and operations departments.

1.3 Subsequent Events

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

1.4 Risk and Opportunity Report

There are no discernible risks that could jeopardize Zalando's ability to continue as a going concern. Compared to the risk and opportunity report contained in the 2017 annual report, the following significant changes within the top risk and significant risk area (formerly expanded risk area) occurred.

Top Risk Area (One Risk Added):

Risk of Increased Costs or Limitation to Growth Due to a Changed Competitive Environment

Fashion – and in particular online fashion retail – is a competitive space. With a growing overall e-commerce market, the competitive effect might be compensated, but in a stagnating or declining overall e-commerce market, our future growth targets might be at risk as market share will be more contested.

Significant Risk Area (Two Risks Added):

Risks from Existing and New Regulatory Requirements Regarding Data Privacy

As an e-commerce company, Zalando needs to gather and process customers' personal data in order to complete orders, receive payment, and effectively engage with customers. In this respect, Zalando is subject to numerous laws and regulations relating to data protection and privacy, specifically the newly enacted General Data Protection Regulation (GDPR) with its increased compliance requirements.

Risk of Capacity Problems at Logistic Service Providers

Risk increases as current logistic service providers may not be able to fulfil the requirements of the growing online retail market. Capacity issues include limitations to logistics networks and potential shortage of skilled employees. Transport costs might rise in the short to medium term and there is a risk of not achieving delivery and quality targets.

In addition, three risks were removed from the Significant Risk Area due to diminished probability or impact: risk of strike, risk from lack of innovation capabilities, risk from missed opportunities on improved forecast planning and alignment (categories and assortment). Despite the fact that these risks were removed from the Significant Risk Area, they continue to be monitored closely.

1.5 Outlook

1.5.1 Future Macroeconomic and Industry-Specific Situation

The European Commission projects 2018 Eurozone GDP growth of 2.3%.⁹ Despite an increase in oil prices and geopolitical trade tension, this economic zone reported a fall in unemployment and only a slight increase in inflation. These factors have allowed the Euro Zone to maintain stable GDP growth which is forecast to remain stable throughout 2018. In Germany, real GDP is expected to increase by 2.3% in 2018.¹⁰ The growing labor market, strong domestic demand and resumed construction investments are expected to provide a boost to growth and drive private consumption.

European online retail is expected to see continued strong growth with 10.7% growth year-on-year in 2018, whereas the European retail industry is expected to achieve only 1.5% growth.¹¹ The picture in Germany is similar: retail is forecasted to grow roughly 2.0% in 2018, whereas internet trade is expected to increase by 11.0%.¹² Similarly, fashion sales in Europe are expected to stagnate (growth of 1.1% compared to the prior year), while fashion sales in Germany are expected to pick up slightly from the prior year with growth of 1.9%.¹³ In contrast, online fashion sales in Europe are expected to increase by approximately 11.8% in 2018, while predictions for Germany anticipate that the market will grow by 10.0% compared to the prior year.

With the development of e-commerce models and the increasing openness of consumers to online shopping, Zalando expects the online fashion share to continue to grow strongly in 2018. Due to its wide brand awareness among European consumers, large customer base, strong supplier relationships, and infrastructure footprint, as well as its fashion and mobile technology capacity, Zalando is convinced that it is well positioned to benefit from these favorable market conditions for online sales. The high emotional factor that both brands and customers associate with fashion also provides independent and pure-play fashion e-commerce retailers like Zalando with a considerable edge compared to non-specialized e-commerce retailers.

1.5.2 Guidance

Zalando specifies its guidance for 2018: The company forecasts revenue growth in the lower half of its target corridor of 20% to 25% in fiscal year 2018 (fiscal year 2017: 23.4%).

At the same time Zalando expects to continue to grow profitably. The company expects an adjusted EBIT at the low end of its EUR 220.0m to EUR 270.0m target range (EBIT EUR 165.0m to EUR 215.0m)¹⁴ (fiscal year 2017: adjusted EBIT of EUR 215.1m; EBIT of 187.6m).

Due to continued strong logistics investments, the capex volume is expected to stay at an elevated level of around EUR 350m.

⁹ European Commission, European Economic Forecast Spring 2018
¹⁰ European Commission, European Economic Forecast Spring 2018

¹¹ Euromonitor, Europe excl. Russia

¹² Euromonitor, Europe excl. Russia

¹³ Euromonitor, Europe excl. Russia

¹⁴ The target range for EBIT is EUR 20m lower than stated in the annual report 2017. This is due to increased planned equity-settled share-based payment expense driven by new stock option programs.

1.5.3 Overall Assessment by the Management Board of ZALANDO SE

Overall, the financial performance and position show that at the time of preparing the half-year report of the fiscal year 2018, the economic condition of the group remained good.

Berlin, August 6, 2018

The Management Board

Robert Gentz

David Schneider

Rubin Ritter



**Interim
Consolidated
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Statements -**

2

2.1 CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

2.1 Consolidated Statement of Comprehensive Income

Consolidated Income Statement

IN EUR M	Notes	Apr 1 – Jun 30, 2018	Apr 1 – Jun 30, 2017	Jan 1 – Jun 30, 2018	Jan 1 – Jun 30, 2017
Revenue	(1.)	1,330.0	1,100.5	2,526.0	2,080.7
Cost of sales	(2.)	-721.7	-585.0	-1,443.6	-1,159.8
Gross profit		608.4	515.5	1,082.4	920.9
Selling and distribution costs		-462.4	-377.7	-892.1	-717.0
Administrative expenses		-64.4	-60.4	-125.4	-113.2
Other operating income		6.7	1.5	9.4	4.3
Other operating expenses		-1.0	-2.7	-2.2	-3.8
Earnings before interest and taxes (EBIT)		87.3	76.3	72.1	91.2
Interest and similar income		1.0	0.5	2.3	1.2
Interest and similar expenses		-3.3	-3.2	-6.8	-6.5
Result of investments accounted for using the equity method		0.0	2.0	0.0	0.3
Other financial result		1.7	-1.6	0.4	-0.9
Financial result		-0.6	-2.3	-4.0	-5.9
Earnings before taxes (EBT)		86.7	74.0	68.1	85.3
Income taxes	(3.)	-34.9	-26.5	-31.4	-32.8
Net income for the period		51.8	47.4	36.7	52.6
Thereof net income attributable to the shareholders of ZALANDO SE		51.9	47.8	36.9	53.0
Thereof net income attributable to non-controlling interests		-0.1	-0.4	-0.2	-0.4
Net income for the period as a percentage of revenue		3.9%	4.3%	1.5%	2.5%
Basic earnings per share (in EUR)	(4.)	0.21	0.19	0.15	0.21
Diluted earnings per share (in EUR)	(4.)	0.20	0.18	0.14	0.21

2.1 CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

Consolidated Statement of Comprehensive Income

IN EUR M	Apr 1 – Jun 30, 2018	Apr 1 – Jun 30, 2017	Jan 1 – Jun 30, 2018	Jan 1 – Jun 30, 2017
Net income for the period	51.8	47.4	36.7	52.6
Effective portion of gains / losses from cash flow hedges, net of tax	-0.9	-4.7	0.6	-0.5
Exchange differences on translation of foreign financial statements	-2.3	1.7	-3.1	2.3
Other comprehensive income	-3.2	-2.9	-2.5	1.8
Total comprehensive income	48.6	44.5	34.3	54.4
Thereof total comprehensive income attributable to the shareholders of ZALANDO SE	48.7	44.9	34.4	54.8
Thereof total comprehensive income attributable to non-controlling interests	-0.1	-0.4	-0.2	-0.4

2.2 Consolidated Statement of Financial Position

Consolidated Statement of Financial Position – Assets

IN EUR M	Notes	Jun 30, 2018	Dec 31, 2017
Non-current assets			
Intangible assets		188.0	182.3
Property, plant and equipment		427.6	350.5
Financial assets		15.9	25.9
Deferred tax assets		0.8	1.4
Non-financial assets		3.2	3.5
Investments accounted for using the equity method		5.9	5.9
		641.5	569.6
Current assets			
Inventories		813.3	778.9
Prepayments		0.0	2.6
Trade and other receivables		310.8	278.7
Other financial assets		129.5	80.7
Other non-financial assets		147.7	152.7
Cash and cash equivalents		874.7	1,065.5
Assets held for sale	(7.)	0.0	51.5
		2,276.1	2,410.7
Total assets		2,917.6	2,980.3

2.2 CONSOLIDATED STATEMENT OF FINANCIAL POSITION

Consolidated Statement of Financial Position – Equity and Liabilities

IN EUR M	Notes	Jun 30, 2018	Dec 31, 2017
Equity			
Issued capital		246.0	247.2
Capital reserves		1,101.0	1,182.4
Other reserves		7.2	8.7
Accumulated profit		135.8	100.7
Equity of shareholders of ZALANDO SE		1,490.1	1,539.0
Non-controlling interest		-0.2	-0.1
	(5.)	1,489.9	1,538.9
Non-current liabilities			
Provisions		16.0	15.8
Borrowings		7.0	8.4
Other financial liabilities		1.9	4.5
Other non-financial liabilities		5.9	7.9
Deferred tax liabilities		38.5	35.4
		69.2	71.9
Current liabilities			
Provisions		0.3	0.3
Borrowings		3.1	2.8
Trade payables and similar liabilities	(8.)	1,108.0	1,120.0
Prepayments received	(8.)	18.0	32.0
Income tax liabilities		14.3	6.4
Other financial liabilities		77.9	84.0
Other non-financial liabilities		136.9	123.9
		1,358.5	1,369.5
Total equity and liabilities		2,917.6	2,980.3

2.3 Consolidated Statement of Changes in Equity

Consolidated Statement of Changes in Equity 2018

IN EUR M	Notes	Issued capital	Capital reserves
As of Jan 1, 2018 before initial application of IFRS 9		247.2	1,182.4
Effect from initial application of IFRS 9		0.0	-0.8
As of Jan 1, 2018 after initial application of IFRS 9		247.2	1,181.6
Net income for the period		0.0	0.0
Other comprehensive income		0.0	0.0
Total comprehensive income		0.0	0.0
Capital increase	(5.)	1.1	5.1
Repurchase of treasury shares	(5.)	-2.2	-97.8
Share-based payments		0.0	11.4
Effects from acquisitions of subsidiaries with non-controlling interest		0.0	0.0
As of June 30, 2018		246.0	1,100.2

Consolidated Statement of Changes in Equity 2017

IN EUR M	Notes	Issued capital	Capital reserves
As of Jan 1, 2017		247.2	1,161.0
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	(5.)	0.1	0.5
Repurchase of treasury shares	(5.)	0.0	-0.7
Share-based payments		0.0	10.9
Effects from acquisitions of subsidiaries with non-controlling interest		0.0	0.0
As of June 30, 2017		247.3	1,171.7

2.3 CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

Other reserves							
Cash flow hedges	Currency translation	Accumulated profit	Shareholders of ZALANDO SE	Non-controlling interest		Total	
7.6	1.2	100.7	1,539.0	-0.1		1,538.9	
0.0	0.0	0.0	-0.8	0.0		-0.8	
7.6	1.2	100.7	1,538.2	-0.1		1,538.1	
0.0	0.0	36.9	36.9	-0.2		36.7	
0.6	-3.1	0.0	-2.4	0.0		-2.4	
0.6	-3.1	36.9	34.4	-0.2		34.3	
0.0	0.0	0.0	6.2	0.0		6.2	
0.0	0.0	0.0	-100.1	0.0		-100.1	
0.0	0.0	0.0	11.4	0.0		11.4	
0.0	0.0	0.0	0.0	0.1		0.1	
8.2	-1.9	137.6	1,490.1	-0.2		1,489.9	

Other reserves							
Cash flow hedges	Currency translation	Accumulated profit	Shareholders of ZALANDO SE	Non-controlling interest		Total	
-1.3	-1.9	2.5	1,407.5	0.0		1,407.4	
0.0	0.0	53.0	53.0	-0.4		52.6	
-0.5	2.3	0.0	1.8	0.0		1.8	
-0.5	2.3	53.0	54.8	-0.4		54.4	
0.0	0.0	0.0	0.6	0.0		0.6	
0.0	0.0	0.0	-0.7	0.0		-0.7	
0.0	0.0	0.0	10.9	0.0		10.9	
0.0	0.0	0.0	0.0	1.0		1.0	
-1.8	0.4	55.5	1,473.0	0.6		1,473.6	

2.4 Consolidated Statement of Cash Flows

Consolidated Statement of Cash Flows

IN EUR M	Notes	Apr 1 – Jun 30, 2018	Apr 1 – Jun 30, 2017	Jan 1 – Jun 30, 2018	Jan 1 – Jun 30, 2017
1. Net income for the period		51.8	47.4	36.7	52.6
2. + Non-cash expenses from share-based payments		6.7	5.5	11.4	10.9
3. + Depreciation of property, plant and equipment and amortization of intangible assets		19.6	13.6	37.5	26.1
4. + Income taxes	(3.)	34.9	26.5	31.4	32.8
5. - Income taxes paid, less refunds		-10.3	-15.5	-20.7	-19.4
6. +/- Increase/decrease in provisions		0.0	0.0	0.1	-0.2
7. +/- Other non-cash income/expenses		-0.4	2.3	0.6	3.0
8. +/- Decrease/increase in inventories		77.8	67.9	-34.4	-73.9
9. +/- Decrease/increase in trade and other receivables		-16.1	-14.4	-32.1	-29.8
10. +/- Increase/decrease in trade payables and similar liabilities	(8.)	-117.8	-101.1	-25.5	25.3
11. +/- Increase/decrease in other assets/liabilities		34.6	47.0	-0.2	35.0
12. = Cash flow from operating activities	(9.)	80.7	79.1	4.7	62.4
13. - Cash paid for investments in property, plant and equipment		-55.9	-37.8	-85.1	-100.2
14. - Cash paid for investments in intangible assets		-11.1	-14.4	-23.6	-29.7
15. - Cash paid for acquisition of subsidiaries and other business entities less cash and cash equivalents acquired		0.0	-26.7	-4.5	-26.7
16. +/- Cash received from/paid for investments in term deposits		0.0	20.0	20.0	90.0
17. +/- Change in restricted cash		0.0	7.3	0.0	7.7
18. = Cash flow from investing activities	(9.)	-67.0	-51.5	-93.3	-58.9

2.4 CONSOLIDATED STATEMENT OF CASH FLOWS

Consolidated Statement of Cash Flows

IN EUR M	Apr 1 – Jun 30, 2018	Apr 1 – Jun 30, 2017	Jan 1 – Jun 30, 2018	Jan 1 – Jun 30, 2017
19. + Cash received from capital increase by the shareholders less transaction costs	2.9	0.6	2.9	0.6
20. - Repurchase of treasury shares	-66.9	-0.7	-100.1	-0.7
21. - Cash repayments of loans	-0.7	-0.8	-1.1	-1.6
22. = Cash flow from financing activities	(9.)	-64.7	-98.3	-1.8
23. = Net change in cash and cash equivalents from cash-relevant transactions	-51.0	26.7	-186.9	1.8
24. +/- Change in cash and cash equivalents due to exchange rate movements	-1.9	-1.5	-3.1	0.7
25. + Cash and cash equivalents at the beginning of the period	927.7	949.9	1,064.7 ¹⁵	972.6
26. = Cash and cash equivalents as of June 30	874.7	975.1	874.7	975.1

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

Cash – Relevant Interests

IN EUR M	Apr 1 – Jun 30, 2018	Apr 1 – Jun 30, 2017	Jan 1 – Jun 30, 2018	Jan 1 – Jun 30, 2017
Interest paid	-3.5	-1.9	-6.9	-4.6
Interest received	0.4	0.2	0.7	0.0
Total	-3.1	-1.7	-6.1	-4.6

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

Free Cash Flow

IN EUR M	Apr 1 – Jun 30, 2018	Apr 1 – Jun 30, 2017	Jan 1 – Jun 30, 2018	Jan 1 – Jun 30, 2017
Cash flow from operating activities	80.7	79.1	4.7	62.4
Cash paid for investments in property, plant and equipment	-55.9	-37.8	-85.1	-100.2
Cash paid for investments in intangible assets	-11.1	-14.4	-23.6	-29.7
Cash paid for acquisitions of shares in associated companies and acquisition of companies and prepayments for such acquisitions	0.0	-26.7	-4.5	-26.7
Free cash flow	13.7	0.3	-108.5	-94.2

¹⁵ Cash and cash equivalents at the beginning of the period include the effect from the initial application of IFRS 9 of EUR -0.8m. See section "Accounting and Measurement Principles" for details.

2.5 Condensed Notes to the Consolidated Financial Statements

2.5.1 Corporate Information

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

The condensed and unaudited interim consolidated financial statements as of June 30, 2018 of ZALANDO SE comply with International Financial Reporting Standards (IFRS) as adopted by the EU. These condensed interim consolidated financial statements were prepared in accordance with IAS 34 Interim Financial Reporting in conjunction with IAS 1 Presentation of Financial Statements. The terms 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 ending December 31, 2017.

Accounting and Measurement Principles

With the exception of IFRS 9 “Financial Instruments” and IFRS 15 “Revenue from Contracts with Customers” the accounting policies and recognition and measurement methods applied in the consolidated financial statements as of December 31, 2017 have been applied without change.

As explained in the 2017 annual report, the first-time application of new accounting standards in fiscal year 2018 did not have any material impact on the condensed interim consolidated financial statements.

The condensed interim 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.

Amendments Due to IFRS 9

Zalando has adopted IFRS 9 “Financial Instruments” for the accounting period beginning on January 1, 2018. The transition to the new standard is retrospective, but without any adjustment being made to the comparative figures. Rather, the difference between the former carrying amount and the carrying amount in the opening statement of financial position at the beginning of the fiscal year has been recognized in the capital reserves.

IFRS 9 introduces a uniform approach for classifying and measuring financial assets. Classification is based on the contractual cash flow characteristics and the business model by which these are managed. Furthermore, the standard provides a new risk provision model that now also accounts for expected losses for the calculation of the risk provision. Moreover, IFRS 9 contains new rules on hedge accounting which provide more useful information about the risk management activities of entities using financial instruments.

2.5 CONDENSED NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

If the cash flows of a financial asset represent solely payments of principal and interest and the objective of the business model is to hold the asset, then subsequent measurement is at amortized cost. If the objective of the business model involves the sale of the financial asset, the asset is measured at fair value through other comprehensive income. In all other cases the financial asset is measured at fair value through profit or loss.

The new classification requirements only lead to marginal changes in equity interests, which are now measured at fair value through profit or loss. Zalando will not exercise the option to irrevocably designate these instruments at fair value through other comprehensive income. The impact on the classification and associated carrying amounts of financial instruments is presented in the following table.

Effect of the First-Time Application of IFRS 9

IN EUR M	Category pursuant to IAS 39*	Carrying amount as of Dec 31, 2017	Category pursuant to IFRS 9**	Carrying amount as of Jan 1, 2018	Effect of the first-time application of IFRS 9
Assets					
Cash and cash equivalents	LaR	1,065.5	AC	1,064.7	-0.8
Trade receivables	LaR	278.7	AC	278.7	0.0
Other financial assets	LaR	64.7	AC	64.7	0.0
Derivative financial instruments designated as hedging instruments	n.a.	17.2	n.a.	17.2	0.0
Other derivative financial instruments	FVtPL	20.6	FVtPL	20.6	0.0
Corporate investments	AfS	4.1	FVtPL	4.1	0.0
Liabilities					
Trade payables	FLAC	1,120.0	AC	1,120.0	0.0
Financial liabilities	FLAC	11.2	AC	11.2	0.0
Other financial liabilities	FLAC	78.3	AC	78.3	0.0
Derivative financial instruments designated as hedging instruments	n.a.	5.7	n.a.	5.7	0.0
Other derivative financial instruments	FVtPL	2.1	FVtPL	2.1	0.0

*) LaR – Loans and Receivables
 FLAC – Financial Liabilities measured at Amortized Cost
 AfS – Available for Sale
 FVtPL – at Fair Value through Profit or Loss
 n.a. – not assigned to a category
 **) AC – Amortized Cost
 FVtPL – at Fair Value through Profit or Loss
 n.a. – not assigned to a category

In addition to the classification requirements, the impairment model used for financial assets has also changed. All financial assets that are not measured at fair value through profit or loss are subject to the new impairment model.

The first step for all financial assets that are not purchased or originated credit-impaired is to record a loss allowance for the 12-month expected credit losses. At Zalando, this results in a loss allowance at the transition date of EUR 0.8m for the cash held at banks, which is recognized in the capital reserves.

If there has been a significant increase in the credit risk, the second step would involve assessing the lifetime expected credit losses. The third step also involves assessing the lifetime expected credit losses. This approach is reserved for those financial assets that were purchased or originated credit-impaired. In contrast to the impairment model used in the second step, the effective interest rate in the third step would be determined using the net value.

The standard provides a simplified approach for trade receivables. In light of the fact that these instruments fall due in the short-term and therefore the financing component is not significant, an impairment is measured from inception at an amount equal to the lifetime expected credit losses. As Zalando already determined such impairments in the past, in keeping with industry practice, the new impairment model does not have any impact.

The requirements for classifying financial liabilities do not lead to any changes at Zalando. With the exception of contingent consideration (IFRS 3) which is measured at fair value through profit or loss, all financial liabilities continue to be measured at amortized cost. The table above also compares the individual measurement categories for financial liabilities and their respective carrying amounts.

The amendments relating to hedge accounting lead to reporting relief in the assessment of the effectiveness of hedging relationships and the designation of the underlying and the hedging instruments. On the one hand, the strict limit on determining hedge ineffectiveness no longer applies and, on the other, there is now a possibility to hedge an aggregated exposure.

Zalando has set itself a risk management strategy and, from this basis, derived risk management objectives for the individual hedges. In accordance with these requirements, Zalando continues to hedge against the foreign exchange risk attached to its purchases denominated in USD and GBP and the associated trade payables. Furthermore, merchandise sales denominated in foreign currency and the associated trade receivables continue to be hedged. Likewise, floating rate bank loans are hedged against the interest risk.

Zalando has applied the new requirements on hedge accounting prospectively since January 1, 2018. The hedge relationships already recognized on this date have been continued, as they met the designation criteria of IFRS 9. Rebalancing was not necessary. As a result, there were no material changes for Zalando.

Amendments Due to IFRS 15

Zalando adopted IFRS 15 "Revenue from Contracts with Customers" in the fiscal year beginning on January 1, 2018. The transition to the new standard is retrospective; however, without any adjustment being made to the comparative figures. Rather, the accumulated adjustment from first-time application would have been recognized in the capital reserves in the opening statement of financial position. However, there is no such adjustment at Zalando.

The core principle of IFRS 15 is that an entity recognizes revenue to reflect the transfer of goods or services to customers at an amount that represents the consideration the entity expects to receive. Revenue is recognized when the customer obtains control over the goods or services. IFRS 15 also contains guidance on the presentation of contract assets or contract liabilities. All revenues at Zalando qualify as contracts with customers and therefore fall within the scope of the new standard.

IFRS 15 introduces a five-step model to determine the point in time (or over time) of recognition and the amount of revenue to be recognized, which Zalando uses to assess its business transactions.

Apart from the "express delivery" option, the goods or services promised by Zalando (goods, free delivery and returns with a return policy of up to 100 days, free customer care) create a bundle that is distinct, i.e. the identified performance obligation.

Zalando makes a distinction between a promise to transfer control over the asset (wholesale) and promises to arrange for a third party to provide goods or services to the customer (Partner Program). Depending on which of these is involved, revenue is recognized either in full or at an amount equivalent to the commission that is expected to be received from the partner.

The right of return granted by Zalando is considered by only recognizing revenue at the amount of the sales for which no returns are expected. When assessing the rate of returns, Zalando uses country-specific and payment option-specific return histories and adjusts these regularly.

As in the past, a right to recover possession of goods from expected returns is recognized in other non-financial assets. The amount of the asset corresponds to the cost of the goods delivered for which a return is expected, taking into account the costs incurred for processing the return and the losses resulting from disposing of these goods. Trade receivables that have underlying transactions that are not expected to be concluded due to the goods being returned are derecognized. For customer receivables already paid and for which returns are expected in the future, Zalando recognizes a refund liability vis-à-vis the customer within other current financial liabilities.

The transaction price to be recognized as revenue arises from the itemized prices of the shipment. However, revenue is recorded net of sales deductions. Any rebates granted on the total order are allocated proportionately to the respective goods making up the order in proportion to their stand alone selling price. By contrast, rebates that are granted on specific articles are allocated only to these articles.

Zalando meets its performance obligations at a point in time. The relevant point in time is when the customer obtains control over the promised goods or services. This is generally when the goods are delivered to the customer. To date, Zalando has already taken into account the fact that partial deliveries may arrive at the customer at different times. Consequently, the revenue of an order can be recognized at different times. There are no significant financing components or contractual costs for Zalando.

Consequently, application of the new standard does not have any impact on the carrying amounts of assets and liabilities reported in the consolidated statement of financial position. However, a breakdown of revenue by category and a presentation of the relationship to the disclosures on segment revenue is nevertheless provided in the note (1.) Revenue.

Basis of Consolidation

The number of subsidiaries included in the basis of consolidation increased from 40 as of December 31, 2017 to 41 on account of entities founded in fiscal year 2018.

2.5.2 Selected Notes to the Consolidated Statement of Comprehensive Income

(1.) Revenue

Revenue

IN EUR M	Apr 1 – Jun 30, 2018	Apr 1 – Jun 30, 2017	Jan 1 – Jun 30, 2018	Jan 1 – Jun 30, 2017
Revenue from the sale of merchandise	1,287.7	1,069.3	2,449.6	2,023.9
Revenue from other services	42.4	31.1	76.5	56.8
Total	1,330.0	1,100.5	2,526.0	2,080.7

In Q2 2018, Zalando increased its revenue by EUR 229.5m from EUR 1,100.5m to EUR 1,330.0m compared to the prior-year period. This corresponds to year-on-year revenue growth of 20.9%.

The increase in revenue is driven by a larger customer base as well as an increase in average orders per active customer. As of June 30, 2018, the group had 24.6 million active customers compared to 21.2 million active customers as of June 30, 2017. This corresponds to an increase of 15.9%. The larger customer base ordered more frequently than in the corresponding prior-year period with the average number of orders per active customer rising by 13.4%, triggered also by an increasing use of mobile devices, and the average basket size decreasing by 6.4%.

In the first six months of 2018, revenue rose by 21.4% to EUR 2,526.0m (prior year: EUR 2,080.7m) compared to the corresponding prior-year period, driven by the aforementioned factors.

As of January 1, 2018 ZALANDO SE changed its internal management structure. The focus is now primarily on sales channels rather than on geographical regions. The segment reporting has been adjusted accordingly. Please see note (11.) Segment Reporting for details.

Revenue in the Fashion Store and the Offprice segments almost exclusively stems from the sale of merchandise, both in the second quarter and the first half year of 2018 as well as in the respective prior-year periods.

All other segments also mostly record revenue from the sale of merchandise; revenue from other services represented a low double-digit percentage share in the second quarter and the first half year of 2018. In the respective prior-year periods, the share of revenue from other services represented a high single-digit percentage share.

(2.) Cost of Sales

Cost of Sales

IN EUR M	Apr 1 – Jun 30, 2018	Apr 1 – Jun 30, 2017	Jan 1 – Jun 30, 2018	Jan 1 – Jun 30, 2017
Non-personnel costs	692.7	565.1	1,383.6	1,120.4
Personnel costs	29.0	19.9	60.0	39.4
Total	721.7	585.0	1,443.6	1,159.8

Cost of sales mainly consists of cost of materials, personnel costs, write-downs on inventories, third-party services and infrastructure costs. Cost of sales rose from EUR 585.0m by EUR 136.7m to EUR 721.7m in the second quarter of 2018. The cost of sales as a percentage of revenue increased by 1.1 percentage points from 53.2% to 54.3%.

The cost of materials in the group totaled EUR 639.1m (prior year: EUR 521.2m).

Zalando generated a gross profit of EUR 608.4m in the second quarter of 2018 (prior year: EUR 515.5m).

For the first six months the cost of sales rose from EUR 1,159.8m to EUR 1,443.6m which is essentially in line with the revenue increase. The increase in personnel costs within cost of sales is disproportionately high as the change in the internal management structure as described in the section “Results by Segment” resulted in a shift of activities within the organization that led to a shift of expenses from administrative expenses to cost of sales and selling and distribution costs.

(3.) Income Taxes

Income Taxes

IN EUR M	Apr 1 – Jun 30, 2018	Apr 1 – Jun 30, 2017	Jan 1 – Jun 30, 2018	Jan 1 – Jun 30, 2017
Deferred taxes	7.2	11.7	3.4	15.2
Current taxes	27.7	14.9	28.0	17.5
Total	34.9	26.5	31.4	32.8

The current tax expenses incurred for the pre-tax income of the second quarter and first half year 2018 have been reduced by the utilization of deductible tax losses brought forward.

(4.) Earnings per Share

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

Basic Earnings per Share (EPS)

	Apr 1 – Jun 30, 2018	Apr 1 – Jun 30, 2017	Jan 1 – Jun 30, 2018	Jan 1 – Jun 30, 2017
Net income for the period attributable to the shareholders of ZALANDO SE (in EUR m)	51.9	47.8	36.9	53.0
Basic weighted average number of shares (in millions)	246.5	247.3	247.2	247.3
Total (in EUR)	0.21	0.19	0.15	0.21

The basic earnings per share developed in line with the decrease in net income attributable to the shareholders of ZALANDO SE for the first six months of 2018 in comparison to the corresponding prior-year period.

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

Diluted Earnings per Share (EPS)

	Apr 1 – Jun 30, 2018	Apr 1 – Jun 30, 2017	Jan 1 – Jun 30, 2018	Jan 1 – Jun 30, 2017
Net income for the period attributable to the shareholders of ZALANDO SE (in EUR m)	51.9	47.8	36.9	53.0
Diluted weighted average number of shares (in millions)	258.4	258.7	259.4	258.3
Total (in EUR)	0.20	0.18	0.14	0.21

Employee options and contracts, which can be equity-settled, were taken into account 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, the options granted within the scope of the VSOP 2018 are not taken into account in the calculation of diluted earnings per share.

2.5.3 Selected Notes to the Consolidated Statement of Financial Position

(5.) Equity

In the first six months, there were equity decreases resulting from the repurchase of treasury shares totaling EUR 100.1m. The decreases were recognized in the issued capital totaling EUR 2.2m and in the capital reserves totaling EUR 97.8m. The shares serve to meet obligations arising from share-based payment programs to employees and to members of the Management Board. The Management Board of ZALANDO SE had decided during the first half-year of 2018 to buy back own shares up to EUR 100m in value (excluding incidental transaction charges) or up to 2,500,000 shares (whichever value is reached earlier) pursuant to Section 71 (1) No. 8 AktG [“Aktiengesetz”: German Stock Corporation Act] based on the authorization of the company’s annual general meeting of June 2, 2015.

(6.) Share-Based Payments

The Virtual Stock Option Program 2018 ("VSOP 2018") was granted to selected senior members of the management team in 2018 as a component of their compensation package that is based on the sustained success of the company. In total 750,000 virtual options were granted in 2018. The virtual options break down into 500,000 ITM (in the money) virtual stock options, which have an exercise price of EUR 29.84 and 250,000 OTM (out of the money) virtual stock options which have an exercise price of EUR 57.38. For each option that is exercised, the holder may receive a cash settlement of an amount equal to the closing price of the share of the company listed on the Frankfurt Stock Exchange on the date on which notification is received that the option is being exercised less the exercise price. The company has the right to fulfill its cash settlement obligations towards the holder of the option by delivering shares instead. The VSOP 2018 is classified as an equity settled plan. The options vest provided that (i) the beneficiary has worked for the company for the period specified within a tranche, (ii) the performance target defined in the VSOP 2018 has been fulfilled, and (iii) the waiting period has elapsed. The options vest to the participants in 20 tranches over a period of five years. Generally, the options are deemed to vest on a pro rata basis in each respective three-month period in which the participant is employed at Zalando SE. The waiting periods of two to five years commence on the date on which the options are granted. At the end of the respective waiting period, the holder of exercisable options can exercise them at any time over the following two to three years, except during certain blackout-periods.

The number of outstanding options developed as follows in the reporting period:

Development of Options (VSOP 2018)

	Number	Weighted average exercise price (EUR)
Outstanding options as of Jan 1, 2018	0	–
Options granted during the reporting period	750,000	39.02
Options forfeited during the reporting period	0	–
Options exercised during the reporting period	0	–
Options expired during the reporting period	0	–
Outstanding options as of Jun 30, 2018	750,000	39.02
Options vested as of Jun 30, 2018	0	39.02

The weighted average of the remaining contractual term of the outstanding options (meaning the period until the options' expiry date) as of the reporting date is five years and three months.

The weighted average fair value of a new option granted within the scope of the VSOP 2018 was EUR 18.80 for ITM options and EUR 9.69 for OTM options in the reporting period. The fair value of the options comprises the intrinsic value and the market value multiplied by the probability that the performance target will be reached. The fair value of the options was calculated using a binomial model. The input parameters included in the calculation of the newly granted options are summarized in the following table:

Parameters VSOP 2018

	Jan 1 – Jun 30, 2018
Weighted average share price (EUR)	44.3
Weighted average exercise price Type A (EUR)	29.8
Weighted average exercise price Type B (EUR)	57.4
Expected volatility (%)	34.0
Expected dividends (%)	0.0
Risk-free interest rate for equivalent maturities (%)	0.0
Probability of reaching the performance target (%)	94.7

The parameters used in the valuation were determined as follows: The share price was set with reference to the trading price of the Zalando share. The estimated volatility used in the model is primarily based on the historical share price of the Zalando share. The risk-free interest rate for equivalent maturities was calculated using the Svensson method. Where possible, the probability that the performance target will be reached was determined based on market assumptions.

(7.) Assets Held for Sale

The assets held for sale contained the warehouse set up in Szczecin, Poland, consisting of the land and building as per December 31, 2017. The warehouse was sold as per June 29, 2018. The gain resulting from the sale is recognized in other operating income. The fulfillment center will be leased back by Zalando. The rental arrangement will qualify as an operating lease in accordance with the criteria set forth in IAS 17.

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

Trade payables and similar liabilities decreased by EUR 12.0m from EUR 1,120.0m to EUR 1,108.0m. Moreover, under reverse factoring agreements, suppliers' claims against Zalando totaling EUR 333.0m were transferred to various factors as of June 30, 2018 (December 31, 2017: EUR 328.9m). These are 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

Zalando generated a positive cash flow from operating activities of EUR 80.7m in the second quarter of 2018 (prior-year period: EUR 79.1m).

Compared to the prior-year period, net income increased from EUR 47.4m to EUR 51.8m in the second quarter of 2018. The slightly higher operating cash flow was mainly driven by the higher net income, lower income taxes paid and higher depreciation, offsetting negative cash flow effects from increased net working capital and decreased other liabilities.

The cash flow from investing activities is mainly impacted by capex, being the sum of the payments for investments in fixed and intangible assets excluding payments for acquisitions, amounting to EUR 67.0m (prior-year period: EUR 52.1m). Capex mainly included increased investments in the logistics infrastructure of EUR 55.6m, relating primarily to the fulfillment centers in Nogarole Rocca close to Verona, Italy, Gryfino close to Szczecin, Poland and Gluchow, close to Lodz, Poland as well as investments in internally developed software of EUR 10.3m.

There were no acquisitions in Q2 2018, whereas the second quarter in the prior year contained cash paid for corporate acquisitions of EUR 26.7m relating to Kickz Never Not Ballin' GmbH and Anatwine Ltd.

As a result, the free cash flow increased by EUR 13.4m, from EUR 0.3m in the prior-year period to EUR 13.7m in the second quarter of 2018.

Cash flow from investing activities further consists of cash invested in term deposits with an original term of more than three months and is therefore presented in cash flow from investing activities. In Q2 2018, there was no cash flow from term deposits, whereas the prior-year period contained cash inflows of EUR 20.0m from maturing term deposits.

Cash outflow from financing activities included the repurchase of treasury shares of EUR 66.9m in Q2 2018. The shares serve to meet obligations arising from share option programs to employees and to members of the Management Board. The Management Board of ZALANDO SE had decided to buy back own shares up to EUR 100m in value (excluding incidental transaction charges) or up to 2,500,000 shares (whichever value is reached earlier) pursuant to Section 71 (1) No. 8 AktG ["Aktiengesetz": German Stock Corporation Act] based on the authorization of the company's annual general meeting of June 2, 2015. The shares were bought back in two tranches of EUR 50m, each purchase distributed over several days, resulting in a repurchase value of EUR 33.2m in Q1 2018 and EUR 66.9m in Q2 2018.

Aggregate cash and cash equivalents decreased by EUR 52.9m in the second quarter, resulting in Zalando carrying cash and cash equivalents of EUR 874.7m as of June 30, 2018.

2.5.4 Other Selected Notes

(10.) Information about Related Parties

Zalando identified the related parties of ZALANDO SE in accordance with IAS 24.

Zalando had transactions with related parties in the reporting period in the ordinary course of business. The transactions were carried out in accordance with the arm's length principle.

These transactions resulting from purchases of goods and services gave rise to liabilities of EUR 54.9m as of the reporting date (as of December 31, 2017: EUR 67.3m). Of this amount, EUR 53.7m (as of December 31, 2017: EUR 65.4m) is due to a reverse factoring provider on account of reverse factoring agreements between Zalando and related parties. As a result, there were trade payables or similar liabilities due directly to related parties totaling EUR 1.2m (as of December 31, 2017: EUR 1.9m). Furthermore, trade receivables from related parties amount to EUR 0.7m (as of December 31, 2017: EUR 0.3m).

Merchandise of EUR 93.0m was ordered from related parties in the reporting period. The order volume totaled EUR 65.3m in the comparative period of the prior year. In addition, goods totalling EUR 2.1m were sold to related parties (prior year: EUR 1.0m). The cost of services received came to EUR 2.0m in the reporting period (prior year: EUR 2.0m).

(11.) Segment Reporting

ZALANDO SE's internal management structure is based on a sales channel perspective. Through fiscal year-end 2017, the Management Board monitored the development of the business for the main sales channel, the Zalando online shop by geographical breakdown into the regions DACH and Rest of Europe. All other sales channels were grouped under the Other segment, which mainly comprised revenue generated by the Zalando Lounge, outlet stores, the new platform initiatives, as well as the private label product sales outside of the Fashion Store.

As of January 1, 2018 ZALANDO SE changed its internal management structure, and thus the segment reporting. The focus is now primarily on sales channels rather than on geographical regions. In addition, Zalando has changed the way the information reported to the so-called chief operating decision maker in accordance with IFRS 8 is presented. While reporting was previously on a consolidated basis, from January 1, 2018 onwards, revenue and profitability generated with external business partners as well as the internal transactions between segments of Zalando are reported. Due to this change, the segment reporting has been supplemented by a reconciliation column to reconcile the segment figures (including internal and external transactions) to the consolidated group figures (showing only external transactions). Thus, the segment reporting has been adjusted accordingly.

These changes increase the level of responsibility and decision making within the individual sales channels. Under the new structure, our main sales channel continues to be the Fashion Store (online shops of Zalando). The Offprice segment includes Zalando Lounge, the outlet stores and overstock management, all other segments include the private label offering zLabels and various emerging businesses. Financial information for the Offprice segment is separately disclosed as it exceeds a quantitative threshold of IFRS 8.13 and thus qualifies as a reportable segment. However, to ensure continuity of capital market reporting, Zalando will continue to report a breakdown of results within the Fashion Store into DACH and Rest of Europe.

Segment Development for the Quarter

Segment Results of the Group Q2 2018

IN EUR M	Fashion Store	Offprice	All other segments	Total	Reconciliation	Total Group
Revenue	1,233.4	114.6	100.8	1,448.7	-118.7	1,330.0
thereof intersegment revenue	40.4	0.0	78.3	118.7	-118.7	0.0
Earnings before interest and taxes (EBIT)	86.6	7.1	-8.1	85.6	1.7	87.3

Segment Results of the Group Q2 2017

IN EUR M	Fashion Store	Offprice	All other segments	Total	Reconciliation	Total Group
Revenue	1,017.0	82.3	81.9	1,181.2	-80.7	1,100.5
thereof intersegment revenue	16.2	0.0	64.5	80.7	-80.7	0.0
Earnings before interest and taxes (EBIT)	69.7	11.5	-4.9	76.3	0.0	76.3

Fashion Store Results by Region Q2 2018

IN EUR M	DACH	Rest of Europe	Fashion Store
Revenue	625.8	607.6	1,233.4
thereof intersegment revenue	21.3	19.1	40.4
Earnings before interest and taxes (EBIT)	57.0	29.5	86.6

Fashion Store Results by Region Q2 2017

IN EUR M	DACH	Rest of Europe	Fashion Store
Revenue	542.2	474.8	1,017.0
thereof intersegment revenue	8.7	7.5	16.2
Earnings before interest and taxes (EBIT)	55.0	14.7	69.7

The positive development of revenue continued across all segments. In Q2 2018, revenue in the Fashion Store segment grew by 21.3%, in the Offprice segment by 39.3% and in all other segments by 23.0%, compared to the prior-year period. The Fashion Store segment continued to generate the highest absolute level of revenue, however, the Offprice segment shows the highest percentage increase in revenue. The revenue increase in the Offprice segment is mainly due to Zalando Lounge, which significantly increased the number of campaigns and active customers and launched a new market (Poland) in September 2017. Furthermore, a new outlet store was opened in Leipzig in June 2018.

The Fashion Store segment showed good profitability with an EBIT margin of 7.0% in Q2 2018, that is a slight increase of 0.2 percentage points compared to the prior-year period. The Offprice segment recorded an EBIT of EUR 7.1m with the EBIT margin decreasing from a high level of 13.9% in the prior-year period to 6.2% in Q2 2018, mainly caused by a lower gross margin. The decrease in gross margin was impacted by increasing internal sourcing costs caused by newly negotiated internal, arm's length transfer prices. All other segments recorded a total decrease of 2.0 percentage points, resulting in an EBIT margin of -8.0% in the second quarter of 2018, driven by increased investments in our growing emerging businesses.

Segment Development for the First Six Months

Segment Results of the Group Half-Year 2018

IN EUR M	Fashion Store	Offprice	All other segments	Total	Reconciliation	Total Group
Revenue	2,327.3	235.0	200.6	2,762.9	-236.8	2,526.0
thereof intersegment revenue	80.8	0.0	156.0	236.8	-236.8	0.0
Earnings before interest and taxes (EBIT)	72.5	15.2	-17.6	70.0	2.1	72.1

Segment Results of the Group Half-Year 2017

IN EUR M	Fashion Store	Offprice	All other segments	Total	Reconciliation	Total Group
Revenue	1,925.8	154.7	166.2	2,246.7	-166.1	2,080.7
thereof intersegment revenue	31.8	0.0	134.3	166.1	-166.1	0.0
Earnings before interest and taxes (EBIT)	81.2	17.3	-7.3	91.2	0.0	91.2

Fashion Store Results by Region Half-Year 2018

IN EUR M	DACH	Rest of Europe	Fashion Store
Revenue	1,177.8	1,149.5	2,327.3
thereof intersegment revenue	42.2	38.6	80.8
Earnings before interest and taxes (EBIT)	67.1	5.3	72.5

Fashion Store Results by Region Half-Year 2017

IN EUR M	DACH	Rest of Europe	Fashion Store
Revenue	1,017.2	908.6	1,925.8
thereof intersegment revenue	16.7	15.0	31.8
Earnings before interest and taxes (EBIT)	88.8	-7.7	81.2

In the Fashion Store segment, revenue rose by 20.8% in the first six months of 2018 compared to the corresponding prior-year period, and as such the Fashion Store continues to be the strongest segment in terms of absolute revenue. In the Offprice segment, revenue grew by 51.9% and in all other segments, revenue growth stood at 20.7%.

The EBIT margin in the Fashion Store segment decreased by 1.1 percentage points from 4.2% in the first six months of 2017 to 3.1% in the first six months of 2018. This decline mainly resulted from a lower gross margin and higher fulfillment costs, partly compensated by lower marketing and administrative expense ratios. The Offprice segment recorded an EBIT margin of 6.5%. The decrease from a high level of 11.2% in the prior-year period is mainly attributable to a lower gross margin. The decrease in gross margin was impacted by increasing internal sourcing costs caused by newly negotiated internal, arm's length transfer prices. The EBIT margin in all other segments decreased by 4.4 percentage points to -8.8% in the first six months of 2018 in comparison to the first six months of 2017 mainly driven by increased investments in our growing emerging businesses.

(12.) Subsequent Events

No significant events occurred after the reporting date which could materially affect the presentation of the financial performance and position of the group.

Berlin, August 6, 2018

The Management Board

Robert Gentz

David Schneider

Rubin Ritter

2.6 Responsibility Statement by the Management Board

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

Berlin, August 6, 2018

The Management Board

Robert Gentz

David Schneider

Rubin Ritter

2.7 Review Report

To ZALANDO SE

We have reviewed the condensed interim consolidated financial statements, comprising 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 of ZALANDO SE, Berlin, for the period from January 1, 2018 to June 30, 2018, which are part of the six-monthly financial report pursuant to Sec. 115 WpHG [“Wertpapierhandelsgesetz”: German Securities Trading Act]. The preparation of the condensed interim consolidated financial statements in accordance with IFRSs [International Financial Reporting Standards] on interim financial reporting as adopted by the EU and of the group management report in accordance with the requirements of the WpHG applicable to interim group management reports is the responsibility of the company’s management. Our responsibility is to issue a report on the condensed interim consolidated financial statements and the interim group management report based on our review.

We conducted our review of the condensed interim consolidated financial statements and the interim group management report in accordance 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 condensed interim 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 provisions of the WpHG applicable to interim group management reports. A review is limited primarily to making inquiries of company personnel and

applying analytical procedures and thus does not provide the assurance that we would obtain from an audit of financial statements. In accordance with our engagement, we have not performed an audit and, accordingly, we do not express an audit opinion.

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

Berlin, August 6, 2018

Ernst & Young GmbH
Wirtschaftsprüfungsgesellschaft

Dr. Rödgers	Haas
Wirtschaftsprüfer	Wirtschaftsprüfer
[German Public Auditor]	[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 cancellations or returns.

Adjusted EBIT

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

Adjusted EBITDA

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

Adjusted Fulfillment Cost Ratio

We define the adjusted fulfillment cost ratio as fulfillment costs before equity-settled share-based payment expense, restructuring costs and non-operating one-time effects, divided by the revenue during the reporting period. Fulfillment costs include expenditures for shipment processing, content creation, customer service and payment processing, as well as allocated overhead costs and write-downs on trade receivables. Fulfillment costs thus include all selling and distribution costs with the exception of marketing costs.

Adjusted Marketing Cost Ratio

We define the adjusted marketing cost ratio as marketing costs before equity-settled share-based payment expense, restructuring costs and non-operating one-time effects, divided by the revenue during the reporting period. Marketing costs consist of expenses for advertising, including search engine marketing and advertising on television, online and other marketing channels, as well as allocated overhead costs.

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, divided by the number of orders delivered during 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 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.

Customer Service

We define customer services as the service we offer our customers via our hotline or email.

EBIT

EBIT is short for "earnings before interest and taxes".

EBITDA

EBITDA is short for EBIT before depreciation and amortization of property, plant and equipment and intangible assets.

EBIT Margin

The EBIT margin is defined as EBIT as a percentage of revenue.

Free Cash Flow

Cash flow from operating activities plus cash flow from investment activities (excluding investments in time deposits and restricted cash).

Mobile Commerce

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

Mobile Visit Share (as % of Site Visits)

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

Net Working Capital

We calculate net working capital as the sum of inventories and trade receivables less trade payables and similar liabilities.

Number of Orders

We define the number of orders as the number of orders placed by customers during the reporting period, irrespective of cancellations or returns. An order is counted on the day the customer places the order. The number of orders placed may differ from the number of orders delivered because the orders at the end of the reporting period may still be in transit or may have been canceled.

Site Visits

We define site visits as the number of series of page views from the same device and the same source (via websites, m.sites, t.sites or apps) during the relevant period. The series is considered ended when a page view is not recorded for longer than 30 minutes.

3.2 List of Charts and Tables

3.2.1 Charts

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3.3 Financial Calendar 2018

Financial Calendar

Date	Event
Tuesday, November 6	Publication of the third quarter results 2018

3.4 Imprint

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Statement relating to the future

This interim report contains statements that relate to the future and are based on assumptions and estimates made by the management of ZALANDO SE. Even if the management is of the opinion that these assumptions and estimates are appropriate, the actual development and the actual future results may vary from these assumptions and estimates as a result of a variety of factors. These factors include, for example, changes to the overall economic environment, the statutory and regulatory conditions in Germany and the EU and changes in the industry. ZALANDO SE makes no guarantee and accepts no liability for future development and the actual results achieved in the future matching the assumptions and estimates stated in this interim report. It is neither the intention of ZALANDO SE nor does ZALANDO SE accept a special obligation to update statements related to the future in order to align them with events or developments that take place after this interim report is published.

The interim report is available in English. If there are variances, the German version has priority over the English translation. It is available for download in both languages at corporate.zalando.com/en/investor-relations.

